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British budget in detail, Pages 14–27

World news | Business summary

Philippine rebels step up attacks

The New People's Army, the military arm of the banned communist party of the Philippines, has stepped up attacks against military and civilian targets since President Corazon Aquino freed more than 500 political prisoners, including top communist leaders.

At least 100 people including NPA guerrillas have died in NPA attacks in the past three weeks. Aquino formed a presidential committee on human rights headed by former senator Jose Diokno, who was jailed by deposed President Ferdinand Marcos.

In Washington, the State Department handed over to the Philippines Government 2,300 pages of documents brought to Hawaii by Marcos. They were impounded by US customs and are believed to contain clues to the whereabouts of his hidden wealth. Page 4

EEC concern

The EEC expressed concern to the Reagan Administration over US plans to reduce its $210m contribution to the United Nations budget by a third this year.

Malaysia bombs

Four bombs exploded in the Sabah logging town of Sandakan in east Malaysia. A newspaper seller was killed and three policemen wounded.

Eleven die in SA

Eleven black people were killed in South African violence and two white women and a child were hurt after cars were stoned and petrol-bombed. Page 4

Mediator leaves

Razah Raad, France's mediator with the kidnappers of French hostages in Lebanon, said he was abandoning efforts after claims that he had dashed their chances of release.

SMH chief jailed

Hans Lampert, former partner in the private West German bank SMH, which nearly collapsed in 1983, was jailed for 43 months on two counts of serious fraud.

Sindona imprisoned

Sicilian financier Michele Sindona, a former Vatican adviser, was sentenced to life imprisonment after a Milan court convicted him of arranging the 1979 contract killing of lawyer Giorgio Ambrosoli. Page 2

Milan wine deaths

Three men died in Milan after drinking adulterated wine bought from supermarkets.

Woman rescued

A Chinese woman who spent nearly 80 hours under the ruins of Singapore's collapsed New World Hotel was rescued. Contact has been lost with some 50 people still trapped in the debris.

Monrovia protest

Schoolchildren demanding that salaries withheld from their teachers be paid went on the rampage in Monrovia in the biggest demonstration against Liberian President Samuel Doe for more than two years.

Employers' crisis

Yvon Chotard, deputy chairman of the Patronat, French employers' confederation, resigned unexpectedly, plunging the organisation into crisis. Page 3

Madagascar havoc

Up to 20,000 people have been made homeless as Cyclone Honorinina continued to wreak havoc on the East African island of Madagascar.

New buck passed

US Government is to change the design of the currency to thwart counterfeiters.

Chase to build takeover defence

CHASE MANHATTAN, the third biggest US banking group, is seeking shareholder approval to introduce a series of anti-takeover provisions at its annual general meeting next month. Page 28

DOLLAR closed in New York at DM 2.2545, SFr 1.8850, FFr 6.9320 and Y175.40. It was little changed in London, rising to DM 2.249 (DM 2.2475) and FFr 6.915 (FFr 6.9065). It was lower at SFr 1.8835 (SFr 1.884) and Y175.0 (Y175.65). On Bank of England figures, the dollar's exchange-rate index was unchanged at 116.7. Page 43

STERLING closed in New York at $1.4750. It was firm in London, gaining 1.25 cents against the dollar to $1.4775. It was also higher at DM 3.3225 (DM 3.2925); SFr 2.7825 (SFr 2.76); FFr 10.2175 (FFr 10.1175) and Y258.5 (Y257.25). The pound's exchange-rate index rose to 74.3 from 74.0. Page 43

WALL STREET: The Dow Jones industrial average closed 13.05 up at 1,789.87. Page 50

LONDON: Equities rose in reaction to the budget and gilts were stronger. The FT-SE 100-share index closed at a record 1,644.4 up 21.8, while the FT Ordinary share index ended 16.9 higher at 1,374.6. Page 50.

TOKYO: Concern over the yen's exchange rate combined with profit-taking to trim 16.20 off the Nikkei average to 14,639.32. Page 50

GOLD fell $2.25 an ounce in the Londoo bullion market to close at $350.50. It rose in Zurich to $351.25 from $350.45. In New York, the April Comex settlement was $350.30. Page 42

US WEST, telecommunications group, says it will take a one-time charge of $114m against its earnings for the first quarter in connection with an early-retirement programme. About 3,600 of the group's 70,000 employees have taken early retirement since November.

EXXON, the world's largest oil company, is to launch a major corporate restructuring as part of its drive to reduce outgoings in the wake of the halving of oil prices. Page 28

ALFA-LAVAL, Swedish engineering and farm equipment group, reported a strong return to profitability last year after 1984's weak performance, which led to restructuring. Page 29

CHRISTIANIA BANK, Norway's second largest commercial bank, achieved record operating profits last year. Page 29

PARIBAS, French state-owned bank, sold its stake in Providence, an insurer, to Axa Drouot, which is engaged in a takeover battle with Compagnie du Midi for control of Providence. Page 29

WAH KWONG, troubled Hong Kong shipping company with debts of US$820m, said its creditors would give it 60 days to devise a restructuring plan. Page 31

DOMINION TEXTILE of Canada has increased its bid for Avondale Mills of Alabama from US$24 to US$26 a share and extended the closing date for its offer from March 26 to March 31.

JACOBS SUCHARD, Swiss chocolate and coffee group, plans to raise up to SFr 400m ($212.3m) through a rights issue and a public placing of shares to finance further expansion. Page 29

COMINCO, Vancouver-based mining group, and Alaska's authorities have reached agreement over building a road and port to serve the country's proposed Red Dog Mine, world's richest zinc and lead deposit. Page 30

BUITONI, Italian foods and confectionery maker, which last year came under control of Mr Carlo de Benedetti's CIR group, made a marginal profit in 1985 after two years of heavy losses. Page 29

PRUDENTIAL-BACHE Securities of the US is to pay £11.95m ($17.5m) for full control of Clive Discount of the UK. Page 34

Chirac pledges early reply to Mitterrand

BY DAVID HOUSEGO AND PAUL BETTS IN PARIS

PRESIDENT François Mitterrand and Mr Jacques Chirac, the leader of the French parliamentary right, appeared unable to agree last night on the terms under which the new government would be formed after the right's narrow victory in last Sunday's election.

Emerging from the Elysée Palace after more than two hours of talks with the President, Mr Chirac said that he had discussed with Mr Mitterrand the forming of a new government and that he would give his reply "as soon as possible."

Mr Chirac's talks at the Elysée Palace were the first confirmation that Mr Mitterrand had offered the leader of the neo-Gaullist RPR party the post of Prime Minister.

But the absence of a formal announcement of Mr Chirac's appointment was also the first sign of the difficulties involved in power sharing between a Socialist president and a new right-wing majority in Parliament.

The courtyard of the Elysée Palace was thronged with journalists and cameramen from early this morning after President Mitterrand had unexpectedly announced on Monday night that he would choose a Prime Minister shortly – and probably on Tuesday – from the ranks of the new parliamentary majority.

Right-wing deputies welcomed the President's statement as an auspicious beginning to "cohabitation."

Last night's disagreements appear to have focused on defining the roles of Prime Minister and President and Mr Chirac's insistence on assurances from Mr Mitterrand over key appointments and allowing the right to legislate by decree.

The RPR and the UDF want to accelerate their legislative programme by being able to short-cut the lengthy parliamentary procedures and thus be able to put through some laws by decree. That is a course often followed by French governments, but one that requires the President's signature. It appeared yesterday that Mr Mitterrand might be unwilling to allow through certain projects to which he is publicly opposed.

Disagreements might also have occurred over sensitive Cabinet posts – including possibly defence and foreign affairs portfolios, where the President's prerogatives are directly involved – as well as other important appointments in the administration.

The negotiations are crucial because under the French Constitution once the President has named the Prime Minister, he can no longer dismiss him.

At the same time, Gaullist deputies made clear that their party was willing to form a government only if they could implement their programme.

In the difficult bargaining, Mr Chirac's own position has been weakened by the slender majority that the right won in the election.

Because of that and the fragility of the coalition, Mr Chirac called for "unfailing support" from right deputies for the expected new government. He said that the UDF and the RPR must observe "absolute discipline."

Chirac profile, Page 3

UK cuts tax rate and forecasts 3% growth

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT, IN LONDON

MR NIGEL LAWSON, Britain's Chancellor of the Exchequer, yesterday announced a 1 percentage-point cut in the basic rate of income tax in a budget aimed at winning the widest possible support for the Conservative Government at a net cost to the Treasury of less than £1bn ($1.45bn).

Shrugging off a £5.4bn drop in North Sea oil revenues and predicting that 1986 will be the best year for the UK economy for a generation, he presented a package of incentives designed to boost wider share ownership, encourage charitable donations and alleviate long-term unemployment.

In parallel, Mr Lawson sought to maintain the confidence of financial markets by cutting his target for the public-sector borrowing requirement in 1986-87 by £500m to £7bn and signalling that the 1985-86 target might be undershot. That was seen in the City of London as paving the way for an early cut in UK interest rates.

The reduction in the basic tax rate to 29 per cent was partly offset by a decision not to raise thresholds for the highest-rate taxpayers fully in line with inflation.

Mr Lawson said the aim was to concentrate the benefits of his limited room for manoeuvre after the oil-price collapse "not on the rich but on the great majority of ordinary taxpayers." The wealthy, however, are expected to benefit from a decision to abolish capital transfer tax for lifetime gifts and replace it with a renamed inheritance tax.

For 1987, possibly the last budget before a general election due at the latest by mid-1988, Mr Lawson pencilled in tax cuts of £2bn. Over the next two years, the financial statement and budget report that accompanied the speech shows scope for

MAIN POINTS

● ECONOMIC FORECASTS: Output in 1986 to rise by 3 per cent and inflation to fall to 3½ per cent. North Sea oil revenues to fall to £6bn in 1986-87 from £11½bn in 1985-86. This assumes a price of $15 a barrel.

● FISCAL AND MONETARY TARGETS: Public-sector borrowing requirement for 1986-87 of £7bn, 1¾ per cent of gross domestic product Monetary growth targets of 11 to 15 per cent for £M3 and 2 to 6 per cent for Mo.

● INVESTMENT TAXATION AND INCENTIVES: Stamp duty on share transactions cut from 1 to ½ per cent from October 27, date of "big bang" in London markets. Stamp duty extended, however, to previously exempt transactions including deals within a single account period and takeovers and mergers. Conversion of UK shares into American depositary receipts subject to 5 per cent duty, effective immediately. Individuals' investments of £2,400 a year, kept in a Personal Equity Plan account for at least one to two years, will attract no tax on reinvested dividends or on capital gains on disposals. Business Expansion Scheme, which allows tax relief on investments in certain companies, extended indefinitely, but additional restrictions on asset-based schemes.

● PERSONAL AND CAPITAL TAXATION: Basic income-tax rate cut from 30 to 29 per cent. Personal allowance raised by 5.7 per cent in line with inflation, higher-rata tax bonds raised by less then inflation rate. Basic-rata tax to be withheld from foreign entertainers and sportsmen working in UK. Discussion document published on possible reforms of personal taxation. Capital transfer tax revised and renamed inheritance tax.

● BUSINESS TAXATION: Engine size-based charges on company cars to ba restructured in lina with EEC directive on exhaust emissions. Public companies allowed tax relief on single gifts to charity up to maximum of 3 per cent of annual dividend – one of several changes to encourage donations to charities. Corporation tax for large companies cut from 40 to 35 per cent, in line with reform announced in 1984 budget.

● DUTY: 7.5p rise on gallon of petrol, 6p on diesel; 11p on packet of 20 cigarettes (but no change on cigars and pipe tobacco); no change in duty on wine, beer or spirits.

tax cuts totalling £7bn, and Mr Lawson said the Government's long-term aim remained to bring the basic rate down to 25 per cent.

The Treasury also published its discussion document on the reform of personal taxation, which Mr Lawson said would pave the way for the introduction of transferable allowances between married partners in the early 1990s.

Mr Lawson also announced a halving of the rate of stamp duty on share transactions to ½ per cent to coincide with the City's "big bang" in October, but that will be offset by extending the duty to a range of other financial transactions.

Mr Lawson gave an upbeat assessment of the outlook for growth and inflation, predicting that the economy would grow this year by about 3 per cent and that retail price inflation would be down to 3½ per cent. For the first half of 1987, he forecast a slight slowing in the growth rate to 2½ per cent, and inflation still at 3½ per cent.

The oil price fall, he said, would bring a small net benefit to the economy as a whole, although it would reduce the Exchequer's revenues from the North Sea to £6.1bn in 1986-87 from an estimated £11.5bn.

That drop assumes that the oil price averages around $15 a barrel in 1986-87 and that the sterling-dollar exchange rate remains close to a recent rate averaging around $1.45. He was adamant, however, that Britain would not cut its production to help to stabilise the world oil price.

Much of the bole in government revenues left by lower North Sea oil revenues has been made up by buoyant revenues elsewhere, reflecting strong increases in earnings and consumer spending and rising company profits.

Mr Lawson said those revenues were oow forecast to be around £3bn higher in 1986-87 than forecast at the time of the last budget. That meant that the fiscal adjustment, or scope for tax cuts, of £3½bn pencilled in at the time of the last budget had not been eliminated completely but had been reduced to £985m.

The oil price fall and the parallel fall in sterling's value against European currencies should also give important stimulus to manufacturing industry, providing what Mr Lawson called "an outstanding opportunity both to increase its exports and to reduc import penetration."

He forecast that that would contribute to balanced growth in output over the next year with investment and exports rising faster than consumer spending.

In a brief review of monetary policy, Mr Lawson said he was reinstating the target for the broad measure of the money supply, sterling M3, with a tighter target for the narrow money-supply measure Mo.

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Markets give muted approval to budget

By George Graham in London

FINANCIAL MARKETS reacted with mute approval to yesterday's UK budget, which was seen as removing one of the possible obstacles to an immediate cut in domestic short-term interest rates. The pound strengthened modestly after the Chancellor of the Exchequer's statement, but reacted more strongly to hopes of stabilising oil prices in the wake of the Opec meeting in Geneva.

Analysts expected Mr Lawson's measures to be greeted favourably when London's markets reopeo today, although some voiced concern that be might have been too optimistic in the picture he painted of economic growth in the coming year.

A cut of up to 1 percentage point in bank base rates is now widely predicted by economists and dealers, perhaps as early as today. "I think a 1 per cent cut will come, and I think it will come soon," said Mr Roger Bootle, chief economist at Lloyds Merchant Bank.

Share prices on tha London stock exchange rose strongly, and the FT-SE 100 index gained 21.6 to end the day at a record 1644.4. The FT ordinary index added 16.9 to a peak 1,374.6.

Brewery shares benefited from the Chancellor's decision not to raise taxes on beer and spirits, but insurance companies lost ground. They were viewed as the obvious losers in the budget as a result of the creation of new incentives for direct share ownership.

The markets were immediately pleased when Mr Lawson announced that he would reduce the

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Nixdorf's death robs Germany of ingenious innovator

By John Davies in Frankfurt

MR HEINZ NIXDORF, who died on Mooday night at the age of 60, was always a maverick figure – a quick, tough, independently-minded and restless man. The success of his data processing company, Nixdorf Computer, made him one of West Germany's leading businessmen but one with the uncomfortable trait of speaking out sharply and critically.

His career has often been cited as an example to others in a nation painfully aware of its need to spur innovation. While still a university student in 1952, he began developing an electronic calculator in a basement workshop io the industrial town of Essen. Now, his business has world sales of nearly DM 4bn ($1.78bn) a year and 23,000 employees.

At the pinnacle of his career, Mr Nixdorf was welcoming bundreds of customers and senior staff at a crowded reception et the Cebit computer fair in Hanover when he collapsed and died of a beart attack.

The immediate reaction of the Frankfurt Stock Exchange yesterday was to mark down the price of Nixdorf Computer shares. They fell DM 16 to close at DM 560. But while Mr Nixdorf to the very last dominated his company and took a close interest in production details, he was intent in recent years on ensuring that his life's work should survive him.

He brought in outside investors by launching his company on the stock exchange two years ago. Typically, he had long held back from such a step and finally made clear that outsiders would get only non-voting preference shares. With a determined grin, he said thet he had no intention of giving up any control over the business.

In addition, he named Mr Klaus Luft as his successor. Mr Luft, the deputy chief executive, is a young and persuasive marketing expert. After Mr Nixdorf's death, it is up to the company's supervisory board, meeting on April 17, to decide on the succession.

Mr Nixdorf, with other members of his family, held about 70 per cent of the company's shares, all of them ordinary voting shares. Mr Nixdorf always kept his business and family life separate: none of his three sons is involved in the business.

In building up his company, Mr Nixdorf originally concentrated on being a supplier to large accounting-equipment manufacturers but soon began marketing products himself. As computers became

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GM discussions on Land Rover purchase close to breakdown

BY PETER RIDDELL AND KENNETH GOODING IN LONDON

TALKS about the future of Land Rover between Britain's Department of Trade and Industry and General Motors (GM) of the US are perilously close to breaking down completely.

This emerged last night at the same time as GM revealed that its Vauxhall subsidiary in Britain suffered an unprecedented net loss of £47.4m ($70m) in 1985 despite achieving record car sales and market share.

Meanwhile, the trade and industry department reacted to allegations that it was favouring GM and freezing out the consortium that wants to organise a management buy-out of Land Rover. It said the consortium would today be given all the financial information it had so far unsuccessfully sought.

Some ministers were, unusually, absent from the budget statement in the House of Commons yesterday so they could attend a lengthy meeting with GM.

There were signs at Westminster last night that the hoped-for compromise deal with GM might prove unobtainable.

Mr Paul Channon, the Trade and Industry Secretary, has been looking for a compromise which would enable GM to buy Leyland Trucks from state-owned BL and to take a significant interest in Land Rover while leaving a major British component in the running of the latter company.

GM has consistently said it does not want Leyland Trucks without Land Rover.

The talks between Britain and GM over the past six days have led to the allegations that other potential bidders for Land Rover are being frozen out.

But last night Mr Peter Morrison, the Minister of State for Industry, gave an assurance to Mr Anthony Beaumont-Dark, a Conservative MP, that Schroder Ventures, the merchant bank acting for the management buy-out consortium, would be given all the financial details it needed. Mr Beaumont-Dark represents a constituency in England's West Midlands, centre of the UK motor industry.

The Government still hopes to reach a decision about Leyland Trucks and Land Rover and to make a statement to the Commons before the Easter recess.

News of the Vauxhall £47.4m net loss, up from a loss of £9.4m in 1984, will shock the UK motor industry and lead to further allegations that the GM subsidiary has been buying market share in Britain.

Last year Vauxhall sold 303,463 new cars (up from 282,835) and its market share improved from 16.17 per cent to a record 16.56 per cent.

Vauxhall's new chairman, Mr John Bagshaw, blamed the increased loss on high interest rates and fluctuating exchange rates – the company imports many cars and knocked-down kits from GM's Opel subsidiary.

Mr Bagshaw added: "We, like other manufacturers, had to absorb higher selling expenses in the extremely competitive market conditions last year."

He said Vauxhall was on course to achieve 80 per cent UK content for all the vehicles it makes in Britain and to build 65 per cent of all cars sold in the UK at its two British factories.

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EUROPEAN NEWS

Sindona surrounded by Carabinieri in the Milan court where he was sentenced yesterday

Soviet output rises 7.3%

BY DAVID BUCHAN

MR MIKHAIL GORBACHEV's ambitious five-year plan for the Soviet economy has got off to a creditable start. Industrial output has increased by 7.3 per cent and labour productivity by 6.9 per cent in the first two months of this year compared with the same period of 1985.

In the energy sector, important for its export orientation, gas extraction increased by 10 per cent, but oil output remained static at the low level of last year's exceptionally harsh winter months. Reporting the figures, the newspaper Ekonomicheskaya Gazeta put the blame for the stagnation of the Tyumen regional oil sector.

All major industrial sectors were reported to have boosted output over the level of January-February 1985. But the economic press also noted some of the extraordinary production swings that occur in Soviet factories as scarce supplies suddenly become available or as workers "storm" at the end of the month.

For instance, machine tool factories in Leningrad and Tbilisi were reported to have fulfilled 79 and 81 per cent, respectively, of their monthly targets in the last week of February alone.

Soviet economic reforms

Estonia demonstrates how it's done

BY DAVID BUCHAN, RECENTLY IN TALLINN

IF SOVIET economic reform can be said to have a leading edge, Estoni is it. With a small population of 1.5m people and a Scandinavian sense of efficiency, this Baltic republic makes a good laboratory.

The admiring way in which Mr Abel Aganhegyan, chief economic adviser to Mr Mikhail Gorbachev, the Soviet leader has talked recently of the Estonian experienments indicates that be would like to see the changes spread to the rest of the country.

Estonia is unique among Soviet republics in having reforms going on in agriculture industry and services, ranging from family farms, direct retail outlets for consumer goods manufacturers and greater profit incentives. Local inittiative has played a large part in the reforms, possibly for cultural reasons or perhaps because Estonia, like the other Soviet Baltic states and Eastern Europe has lived with central planning for fewer years than the rest of the Soviet Union.

Most of the management changes in Estonian agriculture and services were home-grown ideas, and in the centrally-conceived industrial reform, Estonia snccessfully fought the Moscow Dosmestic Trade Mioistry to have retailers included in the experiment and producers allowed to set up their own shops.

Perbaps the best, or at least broadest, achievement has heen in agriculture, where unlike most of the rest of the Soviet Union the average basic wage in Estonia (260 roubles a month in 1985) now outstrips that in industry (215 roubles).

Estonian annual is two and a half times the national average. Against the Soviet trend, there is a modest net migration from the towns back to the countryside.

One reason for this is that Estonia was the first region, starting in the mid-1970s, to combine management of agriculture with most of its supplier industries, in a way that has now been imitated across the country.

Not only did planning improve onder this system, but more money was spent on housing, shops and schools, to mitigate what Marx called the idiocy of rural life. A disadvantage, according to Mr Olev Lugus of the Estonian Academy of Sciences, is that the enterprises which make agricultuarl machinery and fertiliser remain outside these regional agro-industrial organisations.

Estonia now has another novel idea up its collective sleeve: introduction of a differentiated agricultural rent to create equal financial conditions for farms on good and bad land. As Mr Lugus and bis colleagues explain it, the problem is that for the purpose of fixing wbolesale farm prices, the vast Soviet Union is divided into just three zones.

> Having your television repaired in Estonia only takes a couple of days and the repairman can make a profit. Local initiative has played a large part in the republic's approach to industrial and agricultural change and its success in improving efficiency is seen as a model for the country.

Sinee farm prices eannot be properly differentiated to reflect land differencies inside these enormous geographical zones, a variable rent should be introduced. The idea remains in political limho at present because of powerful consumer objections that introducing land reots will raise food prices.

For a little over a year, Estonian ligbt industry bas, under the national experiment started by the late Mr Yuri Andropov, faced new rewards and penalties. Tallin's Marat Textile Company has one startling result to report: a productivity increase last year of 18.6 per cent, compared with a 10.5 per cent target.

The new system gives customers greater powers over produeers like Marat, which last year paid some 700,000 rouhles in fines for complaints about its packaging. But it also requires fewer production targets and lets its workers dispose of more of the profits.

Mrs Elil Ruben, Marat's personnel director, says she is looking forward to the new freedom won from the Moscow Trade Ministry for Estonian consumer goods companies to set up their own high street shops.

The Estonian experiment attracting most national attention involves Elektron, a chain of 48 television repair shops around the republic. Under the old system workers kept only 35 kopecks for every one rouble of repair work they did, so many did business on the side (or on the left, as the Russians say).

The new deal, which affects 24 of Elektron's shops, allows workers to keep all the profit on any business above a certain target.

The upshot, says Mr Vello Rink, Elektron's director, is that repairs take two to three days compared with 10 to 14 days before, and the shops provide new servlees such as home visits by repairmen.

Productivity has risen hy 40 to 50 per cent, and wages in line with this, to 350 roubles a month or more.

Mr Rink is particularly pleased that he has got the Republic's planners to agree to give his company a "stable" target of a 60 per cent increase in output over 1986-90. He says the normal annual ratcheting up of targets in line with previous year's performance robs workers of profit and incentive.

The Elektron director reports Mr Aganbegyan on a recent visit to Tallin as questioning whether targels were really needed for service industries, whose ooly function was customer satisfaction. Mr Rink himself says he can foresee a situation with targets eliminated from services.

Estonia's ehief planner, Mr Gustav Tynispoeg, says all these experiments show "how Socialism can work." The question remaining, bowever, is how well they can be translated to the many otber poorer parta of the Soviet union which lack the flexihility of Estonia.

Sindona given life sentence over killing

By Alan Friedman in Milan

MR MICHELE SINDONA, the Sicilian financier and former Vatican adviser, was yesterday sentenced to life imprisonment after being convicted by a Milan court of having arranged the 1979 contract killing of Mr Giorgio Ambrosoli, a lawyer who was officially investigating Mr Sindona's finances.

The shadowy Mr Sindona was once the owner of an important banking empire in Italy and of the Franklin National Bank in New York. He was convicted and sentenced a year ago in Milan to 15 years in prison for fraudulent bankruptcy in the 1974 collapse of his Italian banking empire.

In 1980 the now 65-year-old Mr Sindona was sentenced to 25 years after a New York trial for fraud and perjury in the 1974 collapse of the Franklin National Bank.

He was extradicted to Italy in September, 1984, and may, under a US-Italian treaty, be returned to prison in New York state before again being returned to Italy to serve his sentence here.

Also convicted and sentenced to life imprisonment yesterday was Mr Robert Venetucci, a New York-born alleged Mafioso who organised the killing of Mr Ambrosoli at Mr Sindona's behest. Mr Venetoeci, speaking in a Brooklyn accent, declared after hearing his sentence: "This is not a fair trial. They have no proof."

The true significance of Mr Sindona's conviction goes beyond tbe case itself. He, like his former friend the late Roberto Calvi of Banco Ambrosiano, is a quintessential representative of the sinister nnderside of Italian politics and finance.

The state prosecutor in Milan described him as being linked to the Italian and US Mafia and as "among the most dangerous criminal elements of Italian society."

Few Italians need to be reminded of Mr Sindona's many alleged ties with the Mafia, his membership in the banned P-2 freemasons' lodge and his extremely close business ties with the Vatican Bank. His power was rooted in the secretive para-state which flourisbed in Italy in the 1960s and 1970s.

He was at one time hailed hy Mr Giulio Andreotti, tbe present Foreign Minister and a former Prime Minister, as "the saviour of the lira." Mr Sindona, for his part, has described Mr Andreotti as "a friend."

Indeed, Mr Sindona's return to Italy 18 months ago set off a political storm wbicb led to a parliamentary eall for the resignation of Mr Andreotti for his alleged ties to Mr Sindona. Mr Andreotti survived the parliamentary motion.

Yesterday's sentences ineloded a four-year jail term for Mr Luigi Cavallo, who was employed by Mr Sindona to intimidate the late Mr Calvi after their relationship soured.

The murder conviction is based on the prosecution's case that Mr Sindona paid $50,000 to Mr William Joseph Arieo, a hired killer, who murdered Mr Ambrosoli in Milan on July 11, 1979.

Mr Ambrosoli had been appointed hy tbe Bank of Italy to earry out the lioulda-tion of Mr Sindona's Banca Privata. Mr Arieo later died in a US prison under mysterious eircomstances.

Mr Sindona, who eame from modest origins in Sicily, developed intimate ties with senior Vatican Bank officials in the late 1950s and 1960s. He not only acted as an investment adviser to the Holy See but was also close to various Rome politicians.

Civil servants' wage strike hits Finland

By Olli Virtanen in Helsinki

A STRIKE by Finland's government employees has paralysed trains and domestic air traffic and severely disrupted external flights and the postal service. The two-day action ending today follows a conerted strike by the eountry's main blue collar union SAK, which affected much of the same services for three days at the end of last week.

The civil servants' union called tba strike in support of demands for a 6 per cent pay increase plus FM 800 (£107) a month. This compares with the 2.4 per cent wbicb SAK accepied after its strike.

Civil servanis yesterday warned that they will begin an indefinite strike on April 2 if negotiations do not bring a settlement hy then. That action would first involve some 20,000 government employees in the Helsinki area, and within two weeks the number of strikers would increase to 42,000 across the eountry.

Poland's miners demand working week concession

BY CHRISTOPHER BOBINSKI IN WARSAW

THE NEW Polish miners union is demanding that the Government concede the principle of voluntary Saturday working for tbe coal, as well as other underground extractive industries, despite last month's official order making Saturday working compulsory.

Successful opposition to weekend working in the mines was one of lhe great issues in the strikes of 1980 which led to the emergeoce of the Solidarity movement. Output the following year fell as a result by 30m lonnes, with a consequent fall in crucial hard-currency coal export earnings.

Compnlsory working on Saturdays was restored in the mines, alhelt at more than double the daily wage rate, with the onset of martial law in 1981. The compulsory working orders expired at the end of last year but were extended by the Government in February until 1990.

The oew miners' union, backed by the national union leadership, has threatened to go to arbitration which is the first step in the long drawn-ont procedure preeeding a strike, should its demand not be met.

Working on Saturdays, however, is an economic necessity for the majority of miners. However, the union is concerned to establish the principle of voluntary working, as well as to improve the flow of goods to special miners' shops. This year, the average monthly coal miner's wage, which is traditionally at the top of the industrial scale, is expected to reach Zl 50,000 (£207), a fifth of which will be earned at weekends on average.

Poland, meanwhile, has agreed to accept the SDR 600m (£474m) membership quota suggested by the International Monetary Fund in the run-up to its re-admission, the Government, Mr Jerry Urban, confirmed yesterday. While the vote on Poland's membership is expected soon, Mr Urban refused to comment on when it expects to rejoin the fund.

S. Korea deficits fillip

South Korea's current account deficit narrowed to $138.3m (£95m) in February from $322.9m in January, but remained wider than the $124.4m in February 1985, provisional Bank of Korea figures show, Reuter reports from Seoul. The trade deficit narrowed to $77.5m from $184.4m in January and $79.9m a year earlier.

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EUROPEAN NEWS

Patronat leader under attack as deputy quits

BY PAUL BETTS IN PARIS

THE FRENCH employers' confederation, the Patronat, has been plunged into crisis by the surprise resignation of its deputy chairman the day after right-wing parties won a narrow majority in Sunday's parliamentary election.

By dramatically resigning at the end of a Patronat executive council meeting, Mr Yvon Chotard has openly challenged the leadership of Mr Yvon Gattaz. He is now expected to compete directly for Mr Gattaz's post when the chairmanship comes up for renewal at the end of this year.

Relations between the two have been difficult ever since Mr Gattaz became chairman in December 1981. However, they decided to try to work together to enable the Patronat to show a united front during the past five years of Socialist government in France.

Mr Chotard submitted a stinging letter of resignation openly criticising the chairman, claiming he was not "capable of conducting the necessary policy." The fundamental clash has been their radically different approach to labour relations. Mr Chotard, who has been responsible for labour relations at the Patronat since 1972, believes in close consultation and collective bargaining with the French trade union confederations.

In contrast, Mr Gattaz has been pressing for direct negotiations between employers and workers, short-circuiting the central union structures. In so doing, Mr Gattaz has sought to take advantage of the current debilitated state of the large unions which have been forced to adapt themselves to the profound change in workers' attitudes over recent years.

These new attitudes have included a more realistic approach to wage demands and industrial restructuring in the face of the growing pressures on the domestic job market.

Mr Chotard, who is close to the neo-Gaullist RPR party led by Mr Jacques Chirac, believes the "labour dialogue" will become even more important now that the right has won a majority, albeit a slim one, in the National Assembly.

He claims that the current Patronat leadership is not able to create the necessary internal cohesion in the confederation in this delicate period of French economic and political life.

● Razah Raad, France's unofficial mediator with the kidnappers of French hostages in Lebanon, said yesterday he was abandoning his efforts following charges that his mission had ruined the hostages' chances of release, Reuter reports from Paris.

The charges were made on television by Syrian-born Omran Adham, a mysterious figure who describes himself as a personal envoy of President Francois Mitterrand to Damascus. French officials have declined to comment on his status.

Dutch cast local votes

BY LAURA RAUN IN AMSTERDAM

DUTCH LOCAL elections will be held today throughout the country in a vote that is viewed as a valuable forecast of the May 21 general elections.

The opposition Labour Party is expected to post the biggest gains in today's ballot, capturing between 35 per cent and 38 per cent of the vote, according to the latest public opinion polls. The Christian Democrats, the senior partners in the governing centre-right coalition, are expected to score about 33 per cent, about the same as in the last local elections in 1982.

The right-of-centre Liberals, the junior partners in the coalition, are expected to suffer a sharp fall to 17 per cent from 22 per cent four years ago.

The polls show that the Christian Democrat - Liberal coalition would lose its parliamentary majority, falling one or two seats short of the 76 required, if this were a general election. The Socialists would gain about 10 seats for a total of 57 while the Liberals would lose 10 seats, dropping to 26.

Test set for EEC standards short cut

By Paul Cheeseright in Brussels

THE EUROPEAN Community's new short-cut approach to setting technical standards will have its first test with simple pressure vessels.

Trade ministers meeting in Brussels yesterday received from the European Commission the first proposal under a system agreed in May 1985 for establishing a simple Community standard based on essential health and safety requirements.

The system is designed to cut away the lengthy negotiations needed to set a standard product-by-product. Instead the idea is to fill in basic requirements, leave it to standards bodies to settle the technical details and have mutual recognition of existing national standards. Goods meeting the Community standard would have free circulation among the 12.

Over the next few months the pressure vessels proposal will be followed by others dealing with construction machinery, lifting and hoisting gear and machine tools. How the ministers handle the pressure vessels proposal will be an indication of the speed at which they will be able to move on the others.

The Commission has chosen to deal with pressure vessels first because of the safety hazard they represent and because the Community countries have varied approaches on the best way of protecting users from the risk of such vessels bursting.

In the context of the immediate proposals simple pressure vessels are defined by the Commission as "compressed air reservoirs, reservoirs for motor vehicles and containers for the storage of certain gases."

The essential safety requirements put forward by the Commission are generally expressed in performance terms but do veer into the type of materials to be used for construction, their chemical composition and mechanical properties.

Ministers had a brief, inconclusive look at the proposal yesterday but spent more time considering standards directives on the table before the new approach came into force.

Spending frozen by ruling on UK

By Quentin Peel in Brussels

EEC spending on social and regional projects, including training and job creation schemes, worth some Ecu 320m ($307.2m) is likely to be frozen as a result of the British Government's success in winning a European court injunction over its contribution to the Community budget.

A further Ecu 70m in Third World aid will also be affected.

Those are the major items in the Ecu 563m challenged by the British Government as having been unlawfully added to the EEC budget by the European Parliament for the current year.

The UK action will save the Government an immediate £27.5m in excess payments made in the first three months of the year, and the European Commission now has to decide whether to repay comparable amounts to the other 11 member states.

The injunction was granted by the president of the European Court pending a major case against the European Parliament's version of the budget, being brought by the Council of Ministers and Britain, France, Luxembourg, the Netherlands and West Germany.

The British success was described yesterday as a "pyrrhic victory" by angry members of the Parliament, who warned that it could cause a new political backlash directed at Britain's budget rebate.

"The British Government has blown it," Mr John Tomlinson, a Labour spokesman on the budget committee, said. "Mrs Thatcher will get her £19m back, and the price she will pay for it is that £300m rebate placed in jeopardy."

The decision by the court president asks the European Commission to execute a budget in line with the Ecu 32.7bn approved by the EEC budget ministers, and not the Ecu 33.3bn passed by the parliament.

Other MEPs challenged the court's ruling, on the grounds that it appeared to recognise a budget which had not been approved by the parliament, as the Treaty of Rome requires, but merely by the budget ministers.

The member states challenge the parliament's budget on the legal grounds that it exceeds the rate of increase laid down in the budget regulations.

RPR leader keeps France guessing, **writes David Housego in Paris**

Chirac wears confident smile

ALL DAY yesterday, Mr Jacques Chirac wore the smile and self assurance of a man who knew that he would step into the Prime Minister's shoes.

Despite last night's hesitant negotiations with President Mitterrand two events had made his appointment seem increasingly inevitable after Sunday's election. The first was President Mitterrand's brief statement from the Elysee on Monday night that he would appoint the new Prime Minister from within the ranks of the right wing majority in the National Assembly.

The second was the private conclave of leaders from the neo-Gaullist RPR and the centrist UDF on Monday who effectively agreed they would not support any other Premier in the National Assembly but Mr Chirac. That barred the road to other possible contenders from within the opposition such as Mr Jacques Chaban-Delmas, the Mayor of Bordeaux.

Symbolically, one of the much-publicised moves that Mr Chirac made yesterday was "to receive" Mr Chaban-Delmas at the Paris town hall where he is mayor. That was the sign that Mr Chirac was master of the shop

Mr Chirac has long said that he had no wish to be "President Mitterrand's Prime Minister." He knows full well that he would be embarking on a tight-rope struggle with a master of the political stage. The ultimate trophy is the succession to Mr Mitterrand as President

That tussle began yesterday when Mr Chirac arrived at the Elysée at 5.30pm. Last night's negotiations appeared to stumble over his desire for assurances from the President that the right would be able to place its own nominees in key posts in the administration, for which the President's endorsement is required, and that Mr Mitterrand would not block their attempts to hasten through their legislative programme by decree.

Mr Chirac could start off from a weaker position than he had hoped. All the right's calculations were on the basis of its achieving a comfortable majority in the National Assembly and thus being able to face Mr Mitterrand from a strong position.

Instead, the right scraped home with a slender majority in the Assembly and the election bolstered Mr Mitterrand. Although Mr Chirac has emerged as the only credible Prime Minister from the right's point of view he has been weakened within his party for not securing a more clear-cut victory.

Because of this difficulty Mr Chirac yesterday called on the RPR parliamentary group for "unfailing support" for the new Government. Mr Chirac cannot afford to have stragglers jumping off the boat.

Since the left took power in 1981, Mr Chirac has moved rightwards towards embracing the free market economics of President Ronald Reagan and Mrs Margaret Thatcher. He was as enormously impressed by their success two years ago as he has been jolted by Mrs Thatcher's recent difficulties.

Prime Minister Jacques Chirac: n tightrope struggle

His conversion to free-market economics owes a good deal to Mr Alain Juppe, the party's economic spokesman now likely to be given a ministerial post.

Historically, the Gaullist movement has been a party of strong government, indicative planning and government intervention which has sought support across a broad social spectrum. Mr Chirac in his advocacy of deregulation, tax cuts and privatisation has not completely buried that past.

He favours national-level rather than plant-level bargaining with the trade unions and would certainly prevent foreign investors gaining more than a minority stake in French denationalised industries.

At the time of the Westland affair in Britain he was amazed that Mrs Thatcher did not do more to push Westland towards a European solution.

Mr Chirac, who is warm, impulsive and quick-tempered, has an enormous following within his party. He strengthens this with election campaigns that carry him to a different town every night.

No politician is more assiduous in building up his personal network, in winning friends through a handshake or a smile, and in instilling enthusiasm in his supporters. Nevertheless, he is an indifferent public speaker, rarely able to win a laugh.

His strength as a manager both of his party and the city of Paris is that he is able to delegate and to encourage fresh talent.

Two years ago, he carried through a difficult generation change in the leadership of his party, retiring many of the Gaullist "old guard" and introducing younger men such as Mr Jacques Toubon, now the party secretary-general, in their place.

His weakness is that he is a man without firm long-term convictions. His career is scattered with contradictory statements and broken political alliances.

Constitution divides executive authority

BY OUR PARIS CORRESPONDENT

WITH THE appointment of a Prime Minister drawn from the parliamentary right n substantial part of decision-making in France will shift from the President's office to that of the Prime Minister.

At the same time the National Assembly, which has up to now had a background role in the history of the Fifth Republic, becomes much more important.

For while the President has the power to name the Prime Minister, he cannot dismiss the man he has chosen, though he can exert great pressure on him to resign. The Prime Minister's position now depends on his maintaining the Assembly's confidence.

But if Mr Mitterrand's power looks likely to be substantially eroded, the Constitution of the Fifth Republic nonetheless leaves executive authority divided between Prime Minister and President.

Mr Mitterrand will still be left with a significant role in foreign affairs and defence, and has other levels with which he can make his voice heard. The most important of these are his powers to dissolve the National Assembly, to call a referendum and in certain circumstances to veto decrees and appointments.

Until now Presidents of the Fifth Republic have had more power than virtually any other head of government in the West, because each President has been in command of a more or less pliable majority in the National Assembly.

Article 20 of the Constitution states that it is the government (under the Prime Minister) which "determines and conducts" policy.

Thus the civil service and the administrative apparatus of the Government depends on the Prime Minister. It is the Prime Minister who is responsible for drafting laws and for getting them passed. He can issue regulations and certain decrees.

The President's ability to initiate action himself is greatly restricted.

The President can delay legislation for 15 days, but is then obliged to sign it.

Nevertheless, the President is more than a constitutional head of state – particularly where the new Government will have only n slim majority in the National Assembly, and both the right and the Socialists are now living in the expectation of presidential elections – due in two years but which could be brought forward.

The President can refuse an extraordinary session of parliament which the new government will almost certainly need to get through its crowded legislative programme and the budget. He can refuse to sign decrees

His signature is needed for a host of senior appointments in the civil service, the armed forces and public sector or nationalised banks and industries. He also presides over the weekly Cabinet meeting.

But in the present circumstances his most formidable power resides in his ability to time the next elections either by resigning himself or by dissolving the Assembly.

OVERSEAS NEWS

Communists step up attacks in Philippines

BY SAMUEL SENOREN IN MANILA

A CALL by President Corazon Aquino, of the Philippines for national reconciliation has been largely ignored by the New People's Army, the military arm of the banned Communist Party, threatening an informal ceasefire ordered by military authorities.

The NPA, which has an estimated fighting force of about 16,000, has stepped up attacks against military and civilian targets since Mrs Aquino freed more than 500 political prisoners, including top Communist leaders, two weeks ago.

The prisoners were released in fulfilment of Mrs Aquino's election campaign promise to effect national reconciliation.

During the past three weeks attacks by the NPA have claimed the lives of more than 100 people in northern and central Philippines.

A six-month truce declared by Mrs Aquino is not to officially take effect until April 1 but the National Democratic Front (NDF), the political arm of the Communist Party, said it had not been consulted on the terms of the ceasefire.

The NDF wants Mr Aquino's Government to disarm civilian home defence forces which were used extensively by the government of former President Ferdinand Marcos to fight the insurgents.

Mrs Aquino yesterday formed a Presidential committee on human rights headed by Mr Jose Diokno, a staunch nationalist and a former senator, who was jailed by deposed Mr Marcos.

The committee will look into reports of abuses against political prisoners, kidnappings and other human rights violations by security forces under Gen Fabian Ver, former armed forces chief, who fled with Mr Marcos to Hawaii in February.

Britain 'will help Kuwait if Gulf war widens'

BY KATHY EVANS IN DUBAI

UK Foreign Office Minister of State, Mr Timothy Renton, said yesterday that Britain would extend military help to Kuwait if the Gulf war widened to include Kuwaiti territory.

Speaking at a press conference in Dubai on the final leg of a Gulf tour, Mr Renton said "Kuwait knows that were they to ask us for specific military equipment or assistance, we would consider the request quickly and sympathetically."

The statement caused surprise in the region, though Britain the declaration came in the context of similar assurances of support from the US and European powers.

Mr Renton said: "In the last few days Britain and the US have been saying to Iran that any extension of this war will be viewed very seriously indeed."

Britain was once the "protecting power" in the Gulf, and 25 years ago dispatched troops to Kuwait when it faced an invasion by Iraq. Until 1971 it was obliged under the terms of a friendship treaty to come to Kuwait's assistance if its territory was threatened.

Britain still maintains a force of about 100 advisers to the Kuwait armed forces, although their day-to-day activities are strictly limited by agreement.

Our Middle East Staff writes: Iraq claimed yesterday to have destroyed one of Iran's main oil refineries at Isfahan, over 250 miles from the international border. The attack, if confirmed suggests that Iraq may again be taking the war to key Iranian economic installations in retaliation for Tehran's successful offensive in the Faw peninsular. For the past five weeks Iraqi offensives have failed to dislodge the Iranians.

Iran said yesterday that its artillery had damaged the Iraqi naval base at Umm Qasr, 30 miles south of Basra, and that its aircraft had attacked targets on the main road from Basra to Baghdad.

Pakistan's relations with India deteriorate

By John Elliott in New Delhi

RELATIONS between India and Pakistan have sunk to their lowest level since the leaders of the two countries met for a euphoric summit in New Delhi last December and mapped out a programme of co-operation which should have culminated in an official visit this month to Islamabad, the Pakistan capital, by Mr Rajiv Gandhi, Prime Minister of India.

That visit has been pushed back into the second half of this year et the earliest following a series of upsets linked with issues which have regularly disrupted relationships between the two countries.

Both Mr Gandhi and President Zia ul-Haq of Pakistan have had to take note of views of political parties within their countries which distrust any rapprochement. This has helped to slow progress on negotiating a peace and friendship treaty. It has also highlighted problems over the disputed territories of Jammu and Kashmir, which both countries' leaders had hoped to leave on one side until other problems had been solved.

The annual report of the Indian External Affairs Ministry, published yesterday, stated: "Since President Zia's visit there have been unfortunate statements relating to Kashmir and minorities in India by responsible ministers and other Pakistani leaders."

The report said that, although Pakistan's assistance to Sikh extremists in the border state of Punjab had been raised with President Zia, along with Pakistan's nuclear programme, "India remains to be convinced on both these matters."

The report also criticised the support given by Pakistan and other countries to Sri Lanka for use against that country's Tamil extremists.

Thai budget backed

The Thai cabinet yesterday endorsed a 226bn baht (£5.6bn) expenditure budget for the next fiscal year which begins in October, writes Boonsong Kdhana in Bangkok. This represents a 6.3 per cent increase over this year's total.

The budget is subject to approval from the Parliament which is expected to start its first reading in May.

The government is under pressure to change policy, reports **Dai Hayward** in Wellington

Debt crisis hits New Zealand farmers

WHEN New Zealand farmers let loose a truckload of sheep in the grounds of the country's Parliament building early this month, they served notice on the Labour Government of Mr David Lange that their plight was becoming desperate.

Thousands of farmers have marched in protest down the streets of small towns and cities, claiming that the combination of falling world markets and the Government's policies mean that they face impending bankruptcy.

Many farms will have to be sold this year, they say, because interest and debt repayments cannot be met from falling incomes.

The Government acknowledges that the income of the average farmer will fall by 25 per cent this year. But Mr Lange and his Finance Minister, Mr Roger Douglas, have declared that the Government will not reverse its economic course and reintroduce the subsidies and special payments which cushioned farmers under the previous National Party Government.

The farmers' leaders themselves declared in the last days of that Administration that farmers did not want handouts, and that the industry should be economically viable.

They did not, however, anticipate the extent to which individual farmers would be hit by the combination of the removal of special payment, the other effects of the new government's economic policies and the difficulties caused by problems in world markets.

Subsidies encouraged farmers to build up sheep herds regardless of market forces

One of the Labour Government's first moves was to sweep away subsidies, including the notorious supplementary minimum payments scheme, to farmers, which provided additional payments above market prices and added hundreds of millions of dollars a year to government spending.

Along with a stock retention payment scheme, the payments encouraged farmers to build up sheep and cattle herds irrespective of the needs of the market, and to gear their farm production to obtaining Government payments rather than to market demand.

Some special payments created anomalies within the farming sector. One add-on payment for wool boosted income for individual farmers by up to a quarter and meant that the larger, more wealthy wool producers also received the largest Government add-on payment.

Tax incentives, originally intended to encourage farm development and the creation of new farm land, also contributed to the imbalance of the farming sector, and provided well-used investment opportunities for non-farmer businessmen.

Syndicates of up to ten businessmen could obtain high tax write-offs by investing in farms; after a few years they could re-sell the farm at a large tax-free capital gain, eventually causing a big rise in land values. Young farmers were forced to borrow heavily to buy a new farm as a result.

These farmers are now suffering. Payments on large loans could be managed while interest rates were held down by government restrictions on the banking industry during the previous Administration, but restrictions have now been lifted. Interest charges have more than doubled, sometimes to as much as 22 to 24 per cent.

At the same time, the cost of living has increased, farm costs have jumped and other former incentives such as fertiliser subsidies and assistance with transport costs have been abolished.

The strength of the New Zealand dollar, which has regained the value of the 20 per cent devaluation imposed by the Labour Government immediately it took office in 1984, has hit farmers and other exporters. Prices received for exports now give farmers a much lower return in local currency, leading to demands for a further devaluation.

Mr Lange said recently it would be irresponsible to bring back subsidies for farmers, which would only prolong the country's economic problems and undermine recovery.

Mr Douglas claims that only 300 of the country's 16,000 farmers who have received loans from the Government-backed Rural Bank are in a critical position. He attracted some criticism by claiming that some of the 300 are inefficient farmers who would be in trouble even if their debts and interest payments were wiped out.

Farmers knew well in advance, he said, that the special payments would end and should have made some provision for the downturn.

There is no doubt that some of the unrest and agitation from within the farming sector is being encouraged and even orchestrated by the Government's political opponents, but that is not to say the farmers do not have real problems.

The farmers have not generally received much sympathy in the cities, where wage earners point to the long freeze they endured under Sir Robert Muldoon while farm incomes were unrestricted. Continued high interest rates, which have failed to fall as Mr Douglas promised, are posing considerable problems for all sectors however.

The farmers' agitation is heightening concern in this area, and it may well be that within the next few months the Government will have to take some steps to bring them down, despite its reluctance to interfere in the marketplace.

Six more die in fighting at Vaal Reefs gold mine

BY JIM JONES IN JOHANNESBURG

A FURTHER six black miners have died in South Africa's in fighting between Xhosas and Basothos at the troubled Vaal Reefs gold mine amid union allegations that the mine's management instigated the so-called faction fighting. The six men were killed and another eight seriously injured as fighting spread to the mine's west division late on Monday which claimed eight lives at night. This followed fighting Vaal Reefs' east division on Sunday.

According to shaft stewards of the 250,000-strong National Union of Mineworkers (NUM), the mine's management used Basotho team leaders to start fights which would be seen as inter-tribal but which was in reality aimed at breaking the unity of members of the NUM. The allegation has been strenuously denied by management.

The company said 1,250 men resigned from the mine yesterday.

Elsewhere, two industrial companies involved in industrial disputes have dismissed their entire striking black workforces. Haggie, South Africa's largest wire rope manufacturer, has dismissed 2,100 ment who have been striking in support of wage claims for almost a fortnight. Gypsum Industries, the South African associate of BPB Industries, has dismissed 200 factory workers who had been striking since March 4 in support of wage demands.

Botswana throws out ANC after pressure from Pretoria

BY PATTI WALDMEIR IN LUSAKA

BOTSWANA has expelled representatives of the African National Congress (ANC) from its territory, following intense pressure from South Africa, which alleges that ANC guerrillas have used the country as a jumping-off point for cross-border raids into South Africa.

The Government in Gaborone is understood to have reached an informal agreement with Pretoria that will rule out any future ANC military or political presence in Botswana. Previously, the organisation had maintained a two-man office in Gaborone, and it was widely believed that ANC guerrillas used the country as a transit point when launching attacks against the republic, a charge denied by ANC officials.

Gaborone has come under increased pressure from Pretoria to expel the organisation since early January, when a landmine explosion killed two whites in an area near the Botswana border. Following the raid, South Africa issued veiled threats of possible military retaliation against Botswana, similar to the lightning strike last June on alleged ANC safe houses in Gaborone in which a number of people were killed.

South Africa's apparent ultimatum to Botswana is understood to be part of a strategy to create a buffer zone of states bordering the republic which have agreed to keep the ANC out.

Zaire accused of human rights abuses

By Michael Holman

AMNESTY International, the London based human rights organisation, has accused the Zaire government of torturing and killing its opponents, rounded up in mass arrests.

A report due to be issued today on conditions in the north east of Shaba, Zaire's important copper and cobalt mining province, says the hundreds of civilians were arrested after a rebellion in the town of Moba in November 1984, a "significant number" of whom were either tortured or killed.

AMERICAN NEWS

Plans to reform liability system passed to Reagan

BY TERRY DODSWORTH IN NEW YORK

EFFORTS to address the US's liability insurance crisis have taken a further step forward with the presentation of a sweeping programme of reforms to President Ronald Reagan by a special commission under Mr Richard Willard, the Assistant Attorney General.

The commission's report was delivered against a background of intensifying discussion over the limitations of the liability system in the US. Several states, including New York, are stepping up their drive to find a solution to the problem of sky-rocketing insurance premiums, which have forced many local authorities and some companies to begin operating without any insurance at all.

Among the remedies proposed by the presidential committee are:

- A return to a less punitive concept of fault, allowing only claims where a product or service could be clearly shown to have been defective. In recent years, companies have suffered heavy damages awards under the "strict liability" ruling, under which claims are frequently awarded without fault being clearly proven.
- Restrictions on "joint and several liability" awards, under which parties which only have a remote connection with an injury can be held liable for the full amount of the damages because of their ability to pay.

In many cases, the "joint and several liability" concept has led to initiators of an accident paying out very little in costs, while third parties only remotely involved have had to meet very large damages claims.

The commission is suggesting that such claims would only be allowed where the two parties could be shown to be acting together.

- An absolute limit on non-economic damage awards — punitive judgements which are designed to deter defendants, or to compensate for "pain and suffering" in the victim. These awards have reached very large sums in the US, where the average award of damages is now running at more than $1m.
- Limits on attorney's fees, which at present are linked on a "contingency" basis to the size of the awards they are able to wring out of the courts. The commission is proposing the establishment of a sliding scale for fees.
- Restrictions on the ability of plaintiffs to seek damage awards from several different sources.

The president is expected to submit legislation to Congress based on the Commission's proposals, although no time-table has been established for the programme as yet. There is a widespread feeling in the insurance industry that it will be difficult to push reform through Congress, partly because the legal lobby has a considerable influence over the legislature, and is keenly opposed to limits on contingency fees.

US sets record annual deficit on current account

THE US current account deficit was a record $36.56bn on a balance of payments basis in the fourth quarter, compared with a revised deficit of $29.3bn in the third quarter, according to the Commerce Department, Reuter reports from Washington.

The current account deficit for 1985 was a record $117.66bn up from $107.36bn in 1984.

The department said much of the increase in the October-December quarter was due to a rise in the merchandise trade deficit.

The current account, which includes merchandise, services and financial transactions, is the broadest measure of the US international trade balance.

- US housing starts fell 3.5 per cent in February to a seasonally adjusted annual rate of 1,985,000 units, the department said.

In January, housing starts rose a revised 9.2 per cent to 1,882,000 units. The department previously estimated they rose 13.7 per cent.

Mulroney set to press Reagan on acid rain

By Nancy Dunne in Washington

THE ISSUE of acid rain overshadowed yesterday's scheduled meeting between President Ronald Reagan and Canadian Prime Minister Brian Mulroney one year and one day after they promised a close working relationship at the "Shamrock summit" in Quebec city.

A special US-Canadian report delivered in January by two envoys appointed by the leaders a year ago recommended a five-year, US$5bn programme to develop ways to burn coal more cleanly.

Acid rain, much of which emanates from the coal-burning plants of the US Midwest, has caused extensive damage in Canada, and relations between the two neighbours may well depend on President Reagan's willingness to act.

The Reagan Administration and US industry have urged delay, insisting that more research is needed.

White House officials refused to say before the meeting whether the President would agree to a scheme. If he does not, he will have to contend with a new more expensive clean-up plan formally introduced in the senate yesterday by Republican Senator Robert Stafford, chairman of the Senate environment and public works committee.

The bill, with an estimated cost of $6bn a year, would regulate power plant emissions as well as those of cars and trucks.

Haiti poll planned for November next year

THE interim Government in Haiti has started work on rewriting the country's constitution, with the aim of holding presidential and general election in November next year, according to Haitian Government officials, writes Canute James in Kingston.

The Administration's time table suggests a new president and government would take office in January 1988.

Lt Gen Henri Namphy, head of the military-civilian interim Administration, has promised elections, but has not publicly announced a date.

UAW suffers defeat at Honda plant

BY TERRY DODSWORTH IN NEW YORK

A KEY organising drive by the United Auto Workers' Union (UAW) hat the US subsidiary of the Honda motor company has suffered a crushing defeat after a rugged tactical battle over the last six months.

The victory for the company, which has consistently contested that there is little union support among the workforce, came when the UAW withdrew its petition for a union-representation election at the plant.

While the union insisted that it would continue with its recruitment effort, the back pedalling on the elections unquestionably throws it on to the defensive at a time when it had claimed a wave of support moving in its direction.

For the UAW, the defeat also has a wider significance because it had hoped to gain recognition at Honda as a first step in an organising campaign at other Japanese-owned motor industry plants.

Although some of the new Japanese plants being established in the US have already decided to accept union representation, several companies have avoided unionisation, a strategy which has steadily eroded UAW membership and manning levels in the established US motor companies decline.

Throughout the organising effort at Honda, the UAW, which had to achieve 30 per cent support among the 2,500 eligible workers to obtain the right to vote, has complained about obstruction.

Last month it asked for a suspension of the membership vote, and appealed to the National Labour Relations Board about Honda's tactics, but this request was turned down.

The union now says that it has lost the opportunity to stage an effective election because the company has started a recruitment drive.

Dangerous way to make a living

BY BERNARD SIMON, RECENTLY AT DRY BONES CAMP, NORTH WEST TERRITORIES

A WELL-HONED survival instinct is often more useful than driving ability to the group of 85 truck drivers who spend each winter ferrying supplies from Yellowknife, capital of Canada's Northwest Territories, to a gold mine 410 miles to the north east.

Travelling along an ice road which crosses more than 30 frozen lakes the truckers are advised not to wear seat belts, in case broken ice forces them to leave their 20- and 30-ton trucks in a hurry. The only markings on the "road" are fluorescent orange ribbons warning of weak spots in the ice.

The drivers run the constant risk of being stranded in fierce Arctic storms, with only the heat from their vehicles' engines to protect them from outside temperatures as low as minus 50 degrees Celsius. Names like Desperation Lake, Courageous Lake, Languish Lake and Defeat Lake are grim reminders of the hazards facing the careless.

For Echo Bay Mines, Canada's third largest gold producer, the road is a construction dream come true. Its Lupin mine, which produces about 190,000 ounces of gold a year, was built five years ago entirely with materials flown in by two company aircraft.

When the bullion price dipped towards $300 an ounce, Echo Bay needed to find a cheaper way of supplying the mine. The road has saved the company more than C$4m (£2m) a year in transport costs since it was first built in December, 1982.

Instead of flying in salt from Edmonton at a cost of 85 cents a pound, trucks now carry it in for only 14 cents a pound. With 1m lbs of salt needed at the mine each year, the savings are substantial.

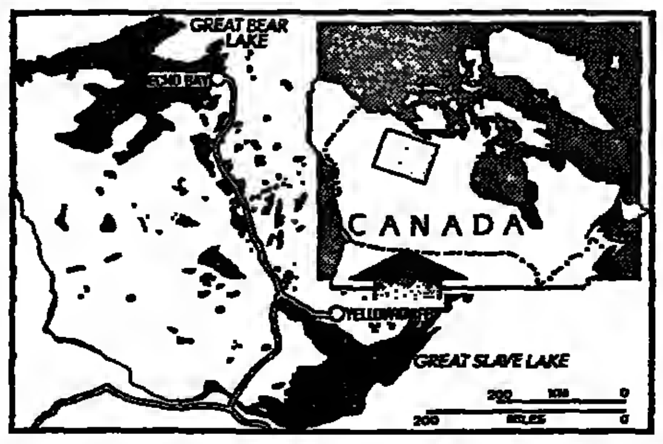
Mr Hugh Tamblyn, a genial former Canadian Air Force maintenance engineer who is Echo Bay's Vice-president for Transportation, recalls that "people said we couldn't keep the road open because of the winds."

This has been an especially bad year for Mr Tamblyn and his maintenance crews. Two heavy trucks and trailers have fallen through the ice. Storms with winds howling at speeds of up to 60 mph have closed the road for 12 days — only five days were lost in 1985.

But Mr Tamblyn has no doubt at all that Echo Bay will again meet its target, as it has each year, of sending about 800 truckloads from Yellowknife to Lupin by the time the spring thaw puts the road out of service in Mid-April.

About 3.5m gallons a year of diesel fuel is the largest single item carried by the trucks. Other loads include lime, steel balls and rods, cement, motor vehicles, machinery — everything that a gold mine needs. Only food is still flown in.

Ice roads have been used to supply remote mines and other communities in Canada and the Soviet Union since the 1950s.



Four are in operation from Yellowknife this winter, but Echo Bey claims that its road is the longest yet built.

Because almost half the Lupin route is above the tree-line, where winds are strongest, it is also one of the most demanding on men and machines. The company has tried without success to swap information on ice roads with the Russians.

Construction of the winter road, which begins in mid-December, consists mainly of ploughing a way through the snow and clearing ice and gravel routes between the lakes. Three feet of ice are sufficient to support a fully-laden truck. A Hercules aircraft needs another four to eight inches.

A helicopter is used to guide a grador along the bleak northern section of the route above the treeline. With low fuel stocks at the mine giving the job an unusual urgency, this year's road took only a record 10 days to build.

Two permanent camps, each sleeping up to 28 people, are opened along the route to provide truckers and maintenance crews with food, fuel and accommodation. The female cooks at the camps are among the best paid workers on the road, earning up to C$16,000 from early January to mid-April in return for 16-hour days, seven days a week. Stelle's peanut butter cookies are among the attractions of a stop at Dry Bones Camp, the first stop after Yellowknife.

Waves created under the ice by the forward momentum of a 20- or 30-ton truck with its heavy trailer post a special hazard. As one trucker put it: "When you come to the edge of the lake, that water's got to go someplace."

Only one truck — a fuel tanker—has fallen through the ice in the past four years. The driver jumped clear and the vehicle was later winched out of the lake. Other rules of the Lupin road are designed to protect drivers.

Engines are never switched off. Fuel tanks must be filled at each camp, giving drivers up to three days of warmth if they are stranded in a storm. They are advised never to leave their vehicles. Trucks are regularly searched for liquor and drugs.

With these precautions, and luck clearly on its side, Echo Bay has lost neither a truck nor a life since the road opened four years ago. The company's managers cross their fingers that the weather patterns of recent years, with storms lasting no longer than three days, will continue.

The drivers, some drawn by the high pay, others keen to get away from personal problems in the south, shrug off the dangers and hardships. Asked what his worst experience on the road has been, one rugged individual recalls the almost irresistible temptation one night, when "someone suggested ..."

US hands over papers on Marcos wealth

By Reginald Dale, US Editor, in Washington

THE REAGAN Administration yesterday gave the Philippines Government about 2,300 pages of documents believed to provide important clues to the whereabouts of the hidden wealth of deposed President Ferdinand Marcos.

The documents were impounded by US Customs from Mr Marcos and his party when they fled to Hawaii on February 26.

The documents were handed over at the state department in a cardboard box by Mr Michael Armacost, Under-Secretary of State for Political Affairs, to Mr Jovito Salonga, head of the Philippines Government commission seeking to recover billions of dollars throught to have been illegally stashed away by Mr Marcos during his 20 years in power.

Mr Salonga said that he hoped the documents, which he had yet to evaluate, "will give us a fair indication of the extent of the plunder of the nation's wealth" under the Marcos régime.

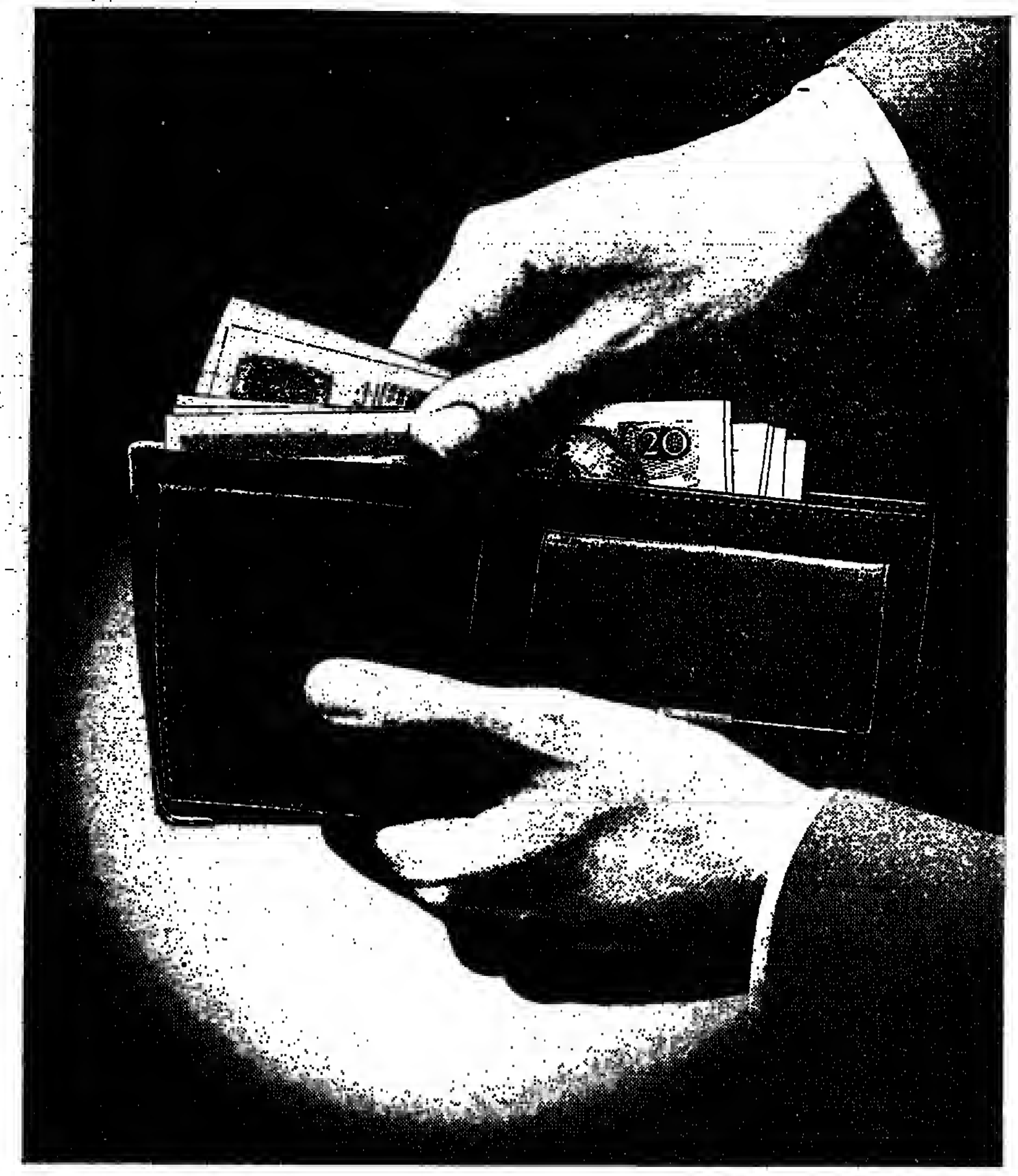
He estimated that Mr Marcos had taken between $5bn (£3.4bn) and $10bn out of the Philippines, with "the greater bulk" now in Swiss bank accounts.

The State Department is also expected to give copies of the documents to a House of Representatives sub-committee that has been investigating the extent of Mr Marcos's holdings in the US.

The committee, which expected to receive the papers later yesterday, has said that it will make them public.

The transfer of the documents to the Philippines Government came one day after a New York Court rejected a bid by Mr Marcos's associates to prevent their release. the documents to the new Judge Dominick Dicarlo of the US court of International Trade said that if the US reneged on its promise to release the documents to the new Aquino Government, "foreign relations of this country with an important and strategically critical far eastern nation may be adversely affected."

Elsewhere in New York, attorneys for the Aquino Government are moving to freeze $350m in alleged assets of the Marcos family, including four Manhattan properties and a stylish Long Island estate.



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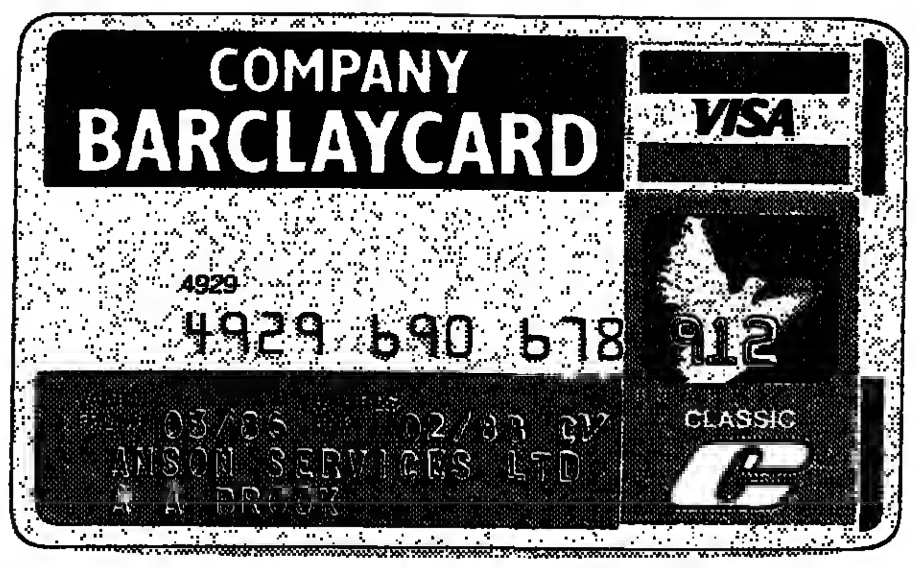

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US-Japanese chip industry leaders meet

BY LOUISE KEHOE IN SAN FRANCISCO

US AND Japanese semiconductor industry leaders took e significant step toward resolving the long-running chip trade dispute between their countries at a secret, informal meeting in Los Angeles. US manufocturers have long claimed that the Jopanese semiconductor market is virtually closed to them.

The meeting was ettended by the chief executives of 11 of the world's largest semiconductor manufacturers—five American and six Jepanese companies. Intel, a major US chip maker, described the talks as "constructive and fruitful."

The Los Angeles meeting, held last weekend, could mark a turning point in US-Japanese high-tech trade relations, according to US industry analysts. The participants represented nearly 90 per cent of the world's total semiconductor production capacity.

It follows closely upon news that US and Japanese trade negotiators are close to agreement upon a global price and production cost monitoring system designed to prevent the dumping of Chips below fair value.

The likelihood of such an agreement has alreedy ceused concern among officials at the EEC.

Mr Charles E. Sporck, president of National Semiconductor and an outspoken critic of Jepanese trade practices, said the Los Angeles meeting focussed "one hundred per cent" upon the issue of opening the Japanese market to American suppliers.

"There were indications of a sincere effort on the part of the Japanese to address that issue," Mr Sporck said.

The epparently cordiol discussions in Los Angeles raise hopes for a US-Japanese negotiated settlement of the semiconductor trade dispute.

Officials from both countries are due to meet again in Washington later this month for the latest round of negotiations stemming from a US industry trade complaint.

Until the Los Angeles meeting, there was little hope for progress on the key issue of Japanese markot eccess. US industry representetives have said that Japanese proposals were "self serving"

US suppliers hove held a 10 per cent share of the Japanese chip market for the past 10 years and despite Japanese market liberalisation policies, the US market share has not increased.

"The governments of the US and Jepan welcome the meeting," said Motorola, the Chicago electronics company whose chairman, Mr Robert Gaivin, toasted the unusual gathering.

Fujitsu America, a subsidiary of Fujitsu of Japan, is to acquire Burroughs' imaging systems division (ISD) for around $20m (£13.7m). The Burroughs subsidiary, based in Connecticut, sells facsimile equipment. It had revenues of $50m last year. Fujitsu was the major supplier of facsimile products to the division. The acquisition is expected to become effective on April 1.

EEC puts the pressure on Japan over 'imbalance' of Gatt benefits

BY WILLIAM DULLFORCE IN GENEVA

THE EEC opened np anotber front in its campaign against Japan's trade surplus yesterday by demanding that the "imbalance in benefits" derived from world trade should be given priority on the agenda of new multilateral trade negotietions.

The General Agreement on Tariffs and Trade (Gatt) was being imperilled by the oxcessivo benefits a small number of countries were taking from tho Gatt system, Mr Tran Van Thinh, the ECC ambassadnr, tnld the Gatt committee preparing for tho new trade talks.

Some countries had artifically inflated tbetr production capacttes. The subseqnent flood of exports had become a source of conflict distorting the free play of market forces. It was difficult tn envisage a new round of trado negotiations taking place without an assurance that the prohlem of the imbalances would be tackled seriously, Mr Tran said.

Mr Tran did not name Japan bnt his reference to countries whicb had genorated trade surpluses of $150bn (£103.4bn) over the four years to 1985 left nobody in donbt about tha main target for hia barbs.

Mr Tran was clearly speaking under instruetians from Brussels. Last week the EEC foreign ministers called on Jepan to stete clearly what it intended to do to "relieve the increasing strain its corrent account surplus is placing on the multilateral trade and payments system."

The Community is putting pressure on Japan in the run-up to the seven-nation economic summit due to take place in Tokyo in May. But last week Japan complained to the Gatt council that Brussels had opproved restrictions on imports from Japan imposed egainst Gatt rules hy Spain and Portugal.

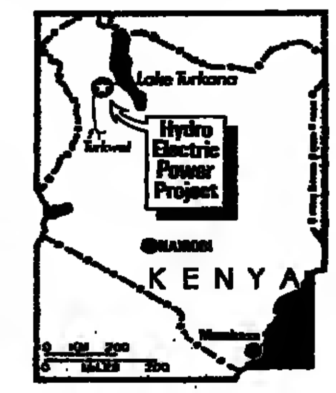
Japan also showed a newfound readiness to hit back yesterday. Mr Tran's intervention led to a knockabout confrontation with Mr Kazno Chiba, the Japanese ambassador, which for the first time brought some animation to the Gatt preparatory committee.

Referring ironically to the cri de coeur, the "sudden note of desperatiou" emanating from "dark cellars of concern" within the European Community, Mr Chiba said he could not see that Japan had anything to do with Mr Tran's account nf "the black holes sucking in all the benefits" of the world trading system.

Some countries, which had worked hard at modernising their industries, had naturally benefitted from Gatt, but the Europeans could not expect Gatt to be rebuilt to counter that success.

Kenyan dam contract provokes criticism

BY MARY ANNE FITZGERALD IN NAIROBI



KENYA's development pbilosophy is coming under critical scrutiny following tho oward of e $205m contract to Spie Batignolles, tbe French construction company.

The contract, awarded on parlielly concessionary terms, is to construct o 106MW hydro-electric dam on Kenya's remote Turkwol River. The project, one of the largest Kenye hod on its books, ettracted considerehle international interest, and the deol hos hroken new ground for the Frencb

But a confidential EEC memorandum, unprecedented in its frankness, cberges that the contrect hes heen inflated well above its market value.

The price is "more then double the amount the Kenya Government would have bad to pay for the project based on an international competitivo tender," claims the memorandum, signed by Mr Achim Katz, the EEC delegate to Kenya. The document has been circulated in Brussels and sent to the Noirobi missions of EEC member countries.

Last year Kenya announced its intcntion to apply new guldelines for development spending which would ensure that funds are productively and efficiently spent.

The awerd of the Turkwel contract, ond the controversy that now surrounds it, comes at o criticol point. Kenya is to present OECD donors with a shopping list of cid requirements this month in preparetion for a meeting in Paris at the end of April.

Diplomets and aid officiels in Nairobi argue that not only has the Turkwel contract been inflcted, hut maintain that France has been allowed by Kenya to "flout" the gentleman's agreemeot that provides guidelines for concessionary finence packages for Third World projects.

According to the Kenyan Finance Ministry, tbe financing agreement includes suppliers' credits in a mixture of French and Swiss francs worth $120.4m at 7.25 per cent interest. They bave hcen arranged by e consortium of e dozen French banks led by Banque de l'Union Europeenne (BUE).

The credits are becked hy the French export credit agency Coface and Banque Francaise Exterieure.

In comparison with the financing package secured for the country's 125Mw Kiambere dam hydroelectric project scbeduled for completion in mid-1988, the terms for Turkwel are stiff. Only balf the funding for Kiambere was at commercial rates, with repayment periods averaging 20 years. In the agreement with Spie Batignolles, 80 per cent of the funding is commercial.

According to the EEC memorandum, if the Swiss franc continues to appreciate ot a rate of 8 per cent, the real interest payable on the commercial loans could double.

The terms of the commercial component, coupled with the inflated overall contract price, make the Turkwel scheme over one third more expensive than the Kiambere project, it says.

The Turkwel contract demonstrates Kenyan officialdom's impatience with what is perceived as the OECD countries' cautious, plodding approach to committing aid money. According to the EEC timescale, Turkwel would not have come on stream until 1992 whilst the French will finish more quickly.

Tho EEC memorandum charges that a call for alternative proposals was made to demonstrate that the French offer was not the only choice. "The intention was to give to the negotiations with France the appearance of a normal, clean and legal affair," it states.

Kenyan officials reject these accusations, claiming the contract was fairly negotiated. "There are very few countries that would have agreed to set aside $200m for a single project," Professor George Saitoti, the Finance Minister, said in an interview.

Tokyo sees sharp rise in exports of machine tools

BY CARLA RAPOPORT IN TOKYO

EXPORTS of Japanese machine tools continued to rise sharply in January and February, despite the yen's rapid appreciation against the dollar and other currencies.

According to industry statistics, exports of the top eight machine toolmakers climbed by about 19 per cent in January, against January of the previous year and 12 per cent in February compared with the previous year, totalling Y12.2bn (£47.42m) and Y10.9bn respectively.

Total domestic and export sales in the period, however, were weaker compared with last year, showing that domestic demand was decreasing while overseas orders were advancing. Industry officials attribute this year's export strength to several factors.

They point to high demand in Europe, particularly West Germany, where companies were trying to improve productivity and reduce labour costs.

In the US, which accounts for 40 per cent of total exports, industry officials said that the increase was due to a rush to buy stocks before prices took into account the higher yen.

A third and almost equally important reason was the threat of export controls being considered by Japan's Ministry of International Trade and Industry.

If such controls were introduced, the industry believes that each company would be scaled back according to market share in major foreign countries. As a result, they are anxious to achieve the highest possible market share.

Bank of Zambia to issue promissory notes

THE Bank of Zambia yesterday announced proposals to resolve its short-term external debt arrears through the issuing of promissory notes, Patti Waldmeir writes from Lusaka.

The proposals, affecting some $400m (£275m) in arrears, or about half the total, have been put to over 100 of the country's largest creditors and received an encouraging response, say bank officials. The scheme, which excludes bank debt, will cover trade arrears and delayed personal remittances, such as end of contract gratuities.

All creditors will be asked to reconfirm claims.

Repayments will begin in 1987. The Bank of Zambia will issue a promissory note denominated in US dollars for each debt, with a single maturity date for payment of principal in full.

Maturity dates will be spread over a nine-year period beginning in 1988. Zambia will pay separately an amount equivalent to interest at the rate of 5 per cent from the date of issue until the date of payment of principal.

Ericsson wins $17m contract from China

LM Ericsson, the Swedish telecommunications and information systems group, has won orders worth $17m (£11.7m) to provide telephone exchange equipment for China, David Brown writes from Stockholm.

The orders are for six AXE digital exchanges for Benxi, Fushun, Shenyang, Shenzhen, the upgrading of an exchange in Guangzhou, and optical fibre equipment. Deliveries are to be completed by middle of next year.

Ericsson has marketed AXE exchanges in China since 1981 and has received 20 orders corresponding to about 250,000 subscriber lines. It delivered China's first digital exchange (to Beijing) and its largest (to Guangzhou).

● Brown, Boveri und Cie (BBC) said it won an order worth around DM100m (£30.3m) for the planning, delivery and installation of the world's largest gas turbine from Dutch utility Energiebedrijf of Amsterdam, Reuter writes from Mannheim.

Industrial output shows lower rate of growth

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE PACE of growth of Britain's manufacturing output appears to have slowed. The upward trend of overall industrial production has also weakened in recent months.

Official figures released yesterday show that manufacturing output rose by about ½ per cent in the three months to January, compared with the previous three months, to stand 2½ per cent above the comparable period a year earlier.

The Central Statistical Office (CSO), which compiles the figures, said that if the impact of the miners' strike, which ended a year ago, was excluded the annual growth rate appeared to be around 2 per cent or slightly less.

That compares with a rate of more than 3 per cent in the early part of 1985. Officials believe that a slowdown set in around the middle of last year although there was some pick-up at the beginning of the winter.

The CSO figures include a "bias adjustment" introduced two months ago to compensate for a trend over the past two years fnr its index of manufacturing output initially to under-record actual rises in production.

Since the adjustment was introduced, however, statisticians have found that they have had to revise downwards the output figures for the latest months, indicating that some of the previous optimism over manufacturing output was misplaced.

Overall industrial production over the last three months was broadly flat to stand about 4½ per cent above the comparable period a year earlier. If the effects of the miners' strike are stripped out of the comparison, the year-on-year rise was only around 1 per cent.

Productinn rose sharply in January but that was due to the recent erratic trend in North Sea nil output, which fell sharply in December before recovering the following month.

The CSO said that its index of industrial production stood at 109.4 (1980=100) in January compared with 107.7 in December, leaving it 2 per cent above the previous peak in output in 1979.

The manufacturing index, which is still 5 per cent below the levels in the first half of 1979, stood at 104.4 (1980=100) in January compared to 104.5 the previnus mnnth.

N. Sea tax overhaul urged to encourage maximum extraction

BY MAX WILKINSON, RESOURCES EDITOR

A COMPLETE overhaul of the North Sea taxation regime is needed to encourage the maximum possible extraction of oil, says a report from the Surrey University Energy Economics Centre.

It says the present tax system is unlikely to give appropriate incentives to oil companies to spend extra money to extract more oil from reservoirs after conventional extraction methods have been exhausted.

These enhanced oil recovery techniques include the injection of pressurised steam and the injection of various gases to make the oil more volatile. Underground combustion and the injection of chemicals improve the flow of oil out of the reservoir.

The authors, Dr Danny Hann of Surrey University and Mr Alan McGillivray of Dundee College of Technology, suggest that between 225m tonnes and 490m tonnes of additional North Sea oil could be extracted using those techniques. They say that might be worth £22bn to £47bn, although some estimates have suggested figures of about half those amounts.

They say that several proposals have been made to modify existing tax arrangements to give oil companies a greater incentive to invest in enhanced recovery. This is because the existing tax system, based on royalty payments, petroleum revenue tax and corporation tax, would hit the profitability of extra investment for enhanced recovery.

The Government might wish to give special incentives, but the authors say it would be difficult to ensure that the concessions were accurately targeted. This is partly because in any given field it is difficult to be sure exactly how much production is attributable to special extraction techniques.

Those difficulties would be overcome if the Government changed to a new form of "rent tax" in which the total amount of tax paid was based on profits.

They say the advantage would be that the tax system would no longer distort companies' decisions on how to allocate their investments.

Enhanced Oil Recovery in the UK North Sea – Some Economic Considerations, by Danny Hann and Alan McGillivray, Surrey Energy Economics Centre, Discussion Paper No 7 (Tel: 0483 571281).

Today captures 6.6% of readers, says survey

BY RAYMOND SNODDY

IN ITS first full week of production Today, Mr Eddie Shah's daily newspaper, was read by 6.6 per cent of the population according to readership research.

The figure was a significant drop from the 9.2 per cent recorded in the first few days, although the initial high figure can almost certainly be attributed to curiosity value. AGB Cable & Viewdata is carrying out detailed research on newspaper readership for a 13-week period covering the launch of Today. A panel of about 1,000 people keep a diary each day on the newspapers they read.

The 6.6 per cent figure for Today was the daily average for the period from March 8 to March 14. Over the course of the week, 18.5 per cent of the panel read Today at least once.

The daily readership of 6.6 per cent compares with 8.5 per cent for the Daily Telegraph and 11.3 per cent for the Daily Express.

It is believed that Today's readership is coming equally from new newspaper readers and existing titles. Its readership profile so far shows a slight bias towards 15 to 34-year-olds and the top three social groups ABC1.

Today, according to one specialist, has not yet found its true level and is still settling down. The second full week is likely to show a lower readership penetration than the first. Returned copies are now becoming a factor, particularly when the newspaper has been delivered late. Production is averaging about 1m copies a day.

Sealink warned of Zeebrugge access delay

THE HARBOUR Authority at Zeebrugge, Belgium, yesterday became involved in the row over access for British Sealink ferries. It revealed that its rules prevented any new company beginning sailings to the port from Dover at least until January next year, Ivo Dawnay in Brussels writes.

The authority claimed that in talks with Sealink in January it had pointed out that long-standing rules required new customers to give at least five months' notice of plans to use the harbour and that no authorisation could be given before the beginning of each year.

While emphasising that the authority was ready to reopen talks with Sealink, Mr Maurice Michiels, the harbour's managing director, insisted that these requirements could not be waived. The rules were intended to give existing customers the time to reorganise their schedules to cope with competition.

He added that this only applied on Zeebrugge–Dover sailings.

□ MAZDA CARS (UK) is launching an attack on Porsche's strong UK market position with a new version of the Mazda RX7 sports car. It goes on sale today.

Its price of £13,995 including taxes underline the strategy now being adopted by most Japanese producers of taking their cars upmarket to maximise profits while constrained by import quotas.

□ THORN EMI, the electronics to entertainment group, has arranged a £40m sale and leaseback of its fleet of 13,000 vehicles, one of the largest in the country. The revolving facility was arranged by Kleinwort Benson and is jointly underwritten by Banque Paribas.

□ RADIATION Dynamics, a UK subsidiary of Monsanto of the US, has been bought out by its management with debt and equity financing provided by Bankers Trust Company. The company, which makes linear accelerators, is based in Swindon, Wiltshire, and has a turnover of about £3m.

Murdoch dispute talks

BY PHILIP BASSETT, LABOUR EDITOR

TALKS were held yesterday between Mr Rupert Murdoch's News International and leaders of the five newspaper unions and the Trades Union Congress (TUC) in an attempt to reach a settlement of the dispute over the company's new printing plant at Wapping, east London.

Over 5,000 print workers have been dismissed by the company after voting to strike.

A statement from the TUC after the talks said that the unions had responded to the company's views which had been made clear in talks last week.

News International is considering the position and a further meeting is likely.

Mr Gerald Kaufman, Labour's home affairs spokesman, yesterday criticised Mr Murdoch as a "disgraceful employer."

UK NEWS

Market for energy services 'stifled by lack of finance'

FINANCIAL TIMES REPORTER

A POTENTIAL European market for energy service companies worth £52bn is being stifled by bureaucracy, lack of finance and ignorance, a report to be published this summer concludes.

In Europe only 10 such companies exist. In the US the concept, termed third party financing, has grown rapidly from 20 companies in 1980 to over 150, represented by their own trade association, and collectively installing hundreds of millions of dollars in energy saving equipment and materials.

The concept is simple. An outside "energy service company" evaluates the level of energy savings possible in a building or industrial process, makes the necessary investment and takes a share of the energy savings produced.

According to Mr Ian Brown, research director of the Association for the Conservation of Energy and author of the report commissioned by the European Commission: "For the Americans, third party finance is seen as a promising way of overcoming the barriers to energy saving investment, such as shortage of finance."

The UK has the best developed energy services industry in the European Community, but the public sector, with half of the country's building stock, has shown least activity. Barriers highlighted by the report include:

- Up to two years of negotiations to sign a contract, "involving overheads unsupportable, even for well capitalised energy service companies."
- Illogical treatment by the UK Treasury of third party financing as public borrowing, when the public sector makes no initial investment and takes no risks."
- Complexity of guidelines for public sector tender documents for the purchase of energy services. "Standard contracts must be produced to speed the entry of third party financing into the public sector."

Throughout the EEC lack of finance was found to be the main obstacle to small companies, such as consulting engineers, interested in setting up energy service companies. "A company getting its payment from savings needs a lot of initial capital. But banks will not accept energy saving investment as collateral because of its uncertain resale value," says Mr Brown.

Offers for BL units still under scrutiny

By Kenneth Gooding, Motor Industry Correspondent

THE BOARD of BL, the state-owned vehicles group, met for three hours yesterday but did not make any recommendation to the Government about the various offers for Leyland Trucks and the Land Rover company.

Indications are that the board might have been able to make a decision yesterday but for the late arrival of proposals about Leyland Trucks and its spare parts operations presented on Monday by Lancashire Enterprises (LEL), the job-creation agency funded by Lancashire County Council.

LEL will not give details of the members of the consortium which will put up the money for the Leyland companies but, as it was encouraged to become involved by the Leyland unions, some union cash is probably involved.

Mr Jim Mason, chairman of LEL, is also on the board of Unity Trust, the trade-union-backed bank that has offered to provide some money for the consortium which hopes to organise a buy-out of Land Rover. Unity said, however, that it had not been approached about the possible offer for Leyland Trucks.

Labour pledges to upgrade pensions and reinstate Serps

BY ERIC SHORT

THE NEXT Labour government would reinstitute the state earnings-related pension scheme (Serps) broadly in the same terms as it now is, Mr Michael Meacher, Labour spokesman on social services, said yesterday.

He told delegates on the second day of the Financial Times pensions conference – Pensions in 1986 – that there was nothing in the 1986 Social Security Bill that commended it to the Labour Party or to most sections of the pensions industry. If Labour was elected at the next election it would immediately block the implementation of the bill.

Mr Meacher accused the Government of making a two-pronged attack on the elderly of the country. First it had reduced the value of the basic pension by revaluing it in line with prices rather than earnings. Second, it was reducing the benefit entitlement under Serps.

Mr Meacher said that the next Labour government would therefore restore the earnings uprating for basic pensions – an increase in present-day terms of £4 a week for a single person and £6.50 for a married couple – and would reinstate the broad provisions of Serps.

He attacked the Government's argument that Serps could not be afforded in the next century. In his opinion there was no conceivable case to be made that Serps was unaffordable.

Mr Meacher stated Labour's strong objections to the introduction of personal pensions. He claimed that they would provide an inadequate pension compared with the Serps scheme. The protection for the employee would still be inadequate despite the current moves on financial services.

He emphasised the Labour Party's opposition to the 2 per cent "bribe" – the proposed extra contribution paid for five years to all persons taking out personal pensions and to all new contracted-out company schemes.

This, he stated, was an unfair charge on the national insurance fund, a burden on good employers with existing pension schemes, and would have a damaging effect on good company schemes.

Mr Parry Rogers, chairman of the Institute of Directors, expressed the institute's support for the government pensions proposals as a step in the right direction towards reducing state intervention and extending personal choice. He reiterated the institute's view that Serps should be phased out.

Mr Rogers felt that the fears in the pension movement of mass defections of employees from company schemes into personal schemes were unfounded.

Mr David Wilkie, partner in R. Watson and Sons, told delegates that the current position of pension funds could be anything between

£200bn in surplus and £2,000bn in deficit – the figure depended entirely on the definition of surplus.

He explained to delegates that the measure of surplus depended very much on the funding target adopted by the particular pension arrangement and the definitioo of the value of the underlying assets.

Mr Wilkie discussed methods of funding pensioo schemes ranging from no pre-funding to maximum funding at outset. No funding resulted in the massive deficit and the maximum funding in a very large surplus.

Mr Edward Johnston, the government actuary, told delegates that he had assumed that 500,000 employees, all aged under 40, would come out of company final salary schemes and take personal pensions when he had made his calculations of the national insurance contribution rebate, to be applied under the new contracting-out arrangements for Serps.

He confessed to delegates a nagging feeling that be had underestimated the likely efforts from pension salesmen.

The other speakers, Mr Philip Bennett, partner designate at Slaughter and May, and Mr Dennis Blair, managing director of Welbeck Pensioo Services, discussed the effects of the 1985 Social Security Act – an act described by Mr Blair as poorly drafted.

Call for partnership deal with unions

By Philip Bassett, Labour Editor

LEADERS of the National Unioo of Mineworkers (NUM) are calling for a new partnership between the unions and the Labour Party based on a firmly socialist programme and rooted in a wholesale reappraisal of employment law.

The NUM's call comes in its confidential submission to the Trades Union Congress (TUC) in advance of its conference today on future labour law. The miners' evidence calls for a number of positive rights, including the right to strike.

The NUM's lengthy, detailed submission is among the best of a TUC consultative exercise which has produced a series of thoughtful, impressive analyses.

The union makes a number of scathing attacks on the "new unionism" – the pragmatic, market-based form of trade unionism, which rejects the ootion of class as a motivating force. It is best exemplified by the EETPU electricians' union, although the NUM makes no specific mention of any individual union.

It says that soma unions have sought to redefine the unions' role as instruments of change to bring about a fundamental shift of power in society, to one "which would see trade unions as pragmatic organisations without political objective and prepared to deal evenhandedly with governments of either political persuasion.

As long as there were people more concerned with vested interests or of treating unions as some kind of commercial undertaking, and while the union movement was more content to occupy the "middle ground" than to revert to its traditional position as a vanguard for working class aspirations, then attacks on union rights would continue, the NUM said.

It added that the trade union movement was not a commercial enterprise to be packaged and sold to its members. It was almost an insult for the TUC in its document on the law "to suggest that trade unions must prove their fitness to play a continuing role in the future."

The union's document makes clear a preference for no trade unionism at all rather than unionism of that kind.

Employers were following a fully developed strategy within industry of encouraging breakaway organisations and promoting non-unionism. Part of the practice of so-called "new unionism" had been the signing of strike-free deals.

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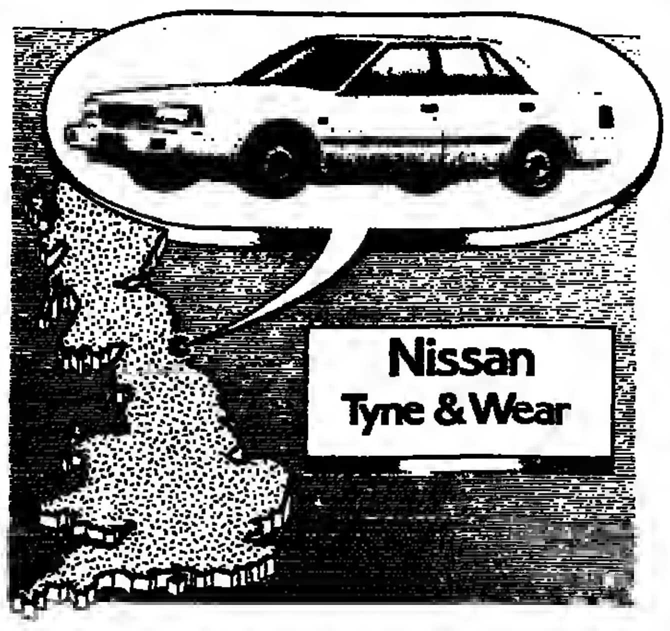
MANAGEMENT

EDITED BY CHRISTOPHER LORENZ



Production of Nissan's Bluebird will start by the end of this month

Nissan UK sets its own style

BY NICK GARNETT

THE first trial cars will be put together by the end of this month at Nissan Motor Manufacturing (UK)'s low-slung sky blue and white assembly plant in the north-east of England. By July the first of the mid-sized four door Bluebirds for the showroom are due to roll out into the daylight.

It is less than two years since the bulldozers and dump trucks moved onto the flatlands near Sunderland airport. In that period, it has become no clearer whether the Nissan plant represents a short lifeline for a job-starved and depressed area of the UK, a catalyst for change in the British motor industry or a backdoor into the EEC that threatens the survival of, among others, Austin Rover.

Whatever the long term impact of Nissan, the setting up of the initial £50m assembly business has so far been an object lesson in decision-making which provides an illuminating contrast with the norm in Europe's car industry.

"There was no blueprint from Nissan. We are all keen here to evolve something that is our own," says Ian Gibson, director of purchasing and production control. "We've had 18 months to hire people and get the plant running. When we started we didn't have an order form. We didn't have an order form because we didn't really have a company."

Gibson, a 39-year-old former Ford manager largely responsible for installing the Escort lines at Halewood, Merseyside, in the late 1970s would have preferred an extra nine months. The timetable did not allow it. "It wouldn't have taken much to knock us off the programme. We've survived on the quality of people and the thoroughness of Nissan organisation." And very long hours.

The quality assurance manual for suppliers was only ready at the end of last year and the company's guide for suppliers is only due off the press this month.

Some 180 full-time Nissan personnel had been hired by the middle of last month out of the eventual workforce of 480 to be employed at the 24,000 cars a year assembly site. The balance, mainly direct production workers, are being hired now.

Already a distinctive decision-making structure has evolved which will form part of the bedrock of the plant's culture when it moves into full scale manufacturing. (This next 100,000 car a year production stage has yet to be announced but the size of the existing main assembly hall and paint shop and the quality of senior personnel indicates Nissan was gearing up for this phase from the off.)

Autocratic decisions are outlawed at the start. No department has sole responsibility for anything down the chain. Meetings involve a wider grouping of managers than is the normal practice in Europe and an unwritten rule is that no meeting comes to a conclusion unless everyone, allowing for some variation of thought, agrees. Nissan M M (UK) has one managing director, Toshiaki Tsuchiya, 57, was boss of the company's Tochigi plant and he and his wife now live in Gosforth Park, near Newcastle.

Under him are seven directors —three British and four Japanese. Apart from Gibson, who is responsible for two functions, another ex-Ford man, Peter Wickens, heads personnel and John Cushnaghan, former manufacturing manager at BL's Cowley assembly plant is in charge of production. The four Japanese directors, all in their 40s, head design, manufacturing engineering, finance and quality assurance.

The management of resources and people and the more outward facing jobs are in the hands of the British directors. They each have a senior Japanese advisor, specialists in their particular side of the business who act as the British directors' interface with Japanese component suppliers and Nissan in Japan. All these senior people work in large group offices where coat-stands are the most extravagant pieces of furniture.

Below this level there is a typical car plant strata of one manager each for the body shop, paint shop, production control and the other sections with an average of two managers reporting to each director. All these managers are British.

Below this, the structure is uncomplicated. The ladder of control in productions moves straight from managers to 22 supervisors and direct production staff split into just two categories with 38 team leaders. The engineering department contains engineers, and senior engineers and all other administrative areas like finance and personnel have controllers and senior controllers.

In all there are about 20 semi-permanent Japanese at Washington with a staff of four at Nissan Motor Company in London.

Decision-making has been kept deliberately loose, mirroring the non-specific job descriptions of shopfloor workers. All seven directors and Tsuchiya hold an executive meeting every Monday evening, the only regularly scheduled get-together. The rest are ad hoc.

"The European style is that the responsible manager holds a meeting involving those functions directly involved in the issue, discusses the problem, short, direct, comes to a conclusion and tells people to implement it," says Gibson, who also worked at Ford's Saarlouis plant in West Germany. "In German plants it's even more disciplined. We involve more people here and more levels of the operation." Component supply decisions, for example, involve production control, manufacturing engineering and quality assurance as well as design and purchasing. Managers as well as directors are at these meetings.

Every department is involved in drawing up the personnel department's appraisal system which will apply to everyone including directors. A very detailed form is being prepared which everyone will have to compete at least once a year as part of that process.

"It's cumbersome and time-consuming but you flush out more potential problems early on," argues Gibson. "I'm surprised consensus works as well as it does. The early part takes a lot longer than I was used to at Ford but once you start to turn the wheel it moves very quickly indeed.

"We think our way is better but we'll not know until some years down the road if we have a better product and company."

Everything has yet to be tested at Nissan MM (UK) because it has still to assemble its first car. That also goes for its labour relations. A single union agreement with the Amalgamated Union of Engineering Workers and a company council made up of a maximum of 10 elected and an unspecified number of nominated representatives are the major elements.

The council is the plant's consultation forum, the final stage in the grievance procedure and the negotiating body. The company is encouraging people to join the AUEW but by this month only some 50 of the potential 150 AUEW members were actually in the union.

A recent paper by Knuth Dohse of the International Institute for Comparative Social Research at the Science Centre, Berlin, questioned the stability of labour relations at the Washington plant because the union has contributed little or nothing to the agreement.

However, Joe Cellini, the AUEW divisional organiser, says the agreement was negotiated, not imposed and "adjustments will have to be made with the passage of time."

One piece of work, though, is already paying dividends. A lot of time was absorbed selecting the shopfloor supervisors. "We do not have one dud," says Wickens.

Business courses

Managing, motivating and developing people. Luton. April 15-16. Fee: IIM members £195 plus VAT; non-members £220 plus VAT. Details from Short Course Dept, Institution of Industrial Managers, Industrial Management House, Cardiff Road, Luton LU1 1RQ. Tel 0582 37071.

Forecasting and its role in marketing. Berkshire. April 20-25. Fee: Members of the Institute of Marketing £640 plus VAT; non-members £750 plus VAT. Details from IM Marketing Training, Moor Hall, Cookham, Maidenhead, Berkshire SL6 9QH. Tel: 062 85 24922 ext 29.

Microcomputers and business efficiency: a modular programme of 15 days teaching and consultancy. Newcastle. April 7, 8, 9, 14, 22, 23, 30; May 6, 7, 8, 12, 20, 21, 22. Fee: £355. Details from Department of Industrial Management, University of Newcastle, 13 Windsor Terrace, Newcastle, NE1 7RU. Tel: 0632 328511, ext 2188.

Cultural aspects of economic co-operation in Europe, Maastricht. April 10. Registration fee: DFl 250. Details from Institute for Research on International Co-operation, Convention Dept, VVV Maastricht, Stationstraat 29, NL-6221 BN Maastricht. Tel: (0)43 - 215558. Telex: 56760.

Managing foreign exchange exposure. London. April 23-24. Fee: £431.25. Details from Miss J. K. Van Wycks, Seminar Division, Crown Eagle Communications, Vernon House, Sicilian Avenue, London WC1A 2QT. Tel: 01-232 4111. Telex: 896979

The prospects for tourism in Britain. London. April 22-23. Fee: £430 plus VAT. Details from The Financial Times Conference Organisation, Minister House, Arthur Street, London EC4R 9AX. Tel: 01-621 1355. Telex: 27347 FTCONF G.

Prospering through privatisation: how the business community can profit from the procedures and consequences. London. April 17-18. Fee: £454.25. Details from IIR, 44 Conduit Street, London W1R 9FB. Tel: 01-434 1017.

Intervention skills in performance counselling, Uxbridge. May 1-2. Fee: £275. Details from Miriam Dean, The Secretary, Management Programme, Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0895 56461, ext 215.

The London International Construction conference 1986, London. April 14-15. Fee: £485 (US$545). Details from European Study Conferences, Kirby House, 31 High Street East, Uppingham, Rutland LE15 9PY. Tel: 9572 822711. Telex: 341352 EURCON G.

Women managers

How to become assertive

Lisa Wood reports on the aims of a series of workshops

ANY COURSE entitled The New Assertive Woman Manager is likely to intimidate some; but the fact that such a course has just been mounted by the British Institute of Management suggests that women are being taken more seriously in business.

The eight women from companies such as Marks and Spencer, British Telecom and the Nationwide Building Society who recently attended the first of four workshops to be held this year are also concerned to take themselves seriously.

"More and more women are entering management," says Lee Bryce, one of three women consultants employed by the BIM as workshop leaders. "Yet many feel at a disadvantage and lack confidence because they have career paths and work experience different from that of their male counterparts. Many women undervalue the considerable experience and skills which they already have."

Bryce proffers a lengthy reading list of authors who have sought to identify the reasons for women's perceived and possible real disadvantage in the workplace. She gives the example of a woman having difficulty in making a contribution to a meeting with 10 voluble men. "On the one hand her voice will probably be much quieter than the men's and, on the other, the expectation among the men will be that she will not lead the show."

Concerns such as this were among the problems aired at the workshop. Parnel McLaren, a 30-year-old service administration manager at Omeda, the health care subsidiary of BOC, spoke of the difficulties in taking control of regular meetings with three male colleagues when she had to make a report. She felt they did not listen to her, talked among themselves and interrupted her. The result was that she got angry and defensive.

The dynamics of a particular situation are not the concern of the workshop. Rather, Bryce talks of the skills needed to take command of an audience. The check list includes speaking more loudly, keeping a constant alert, making eye contact, speaking with brevity and, last but not least, making a careful selection of one's seat.

All these are skills that could assist a man too but are of particular relevance to this group of women from junior to middle management.

An important component of the two-day workshop is the sharing of common experiences: not to moan about men but to become more objective about one's problems. At this particular workshop only one woman, a college-educated assistant hospital administrator, had any experience of this kind.

McLaren, who left school at 15 to work in a sewing factory, says her boss described her as "diffident" in a recent work appraisal. She says: "I took it very personally. However, listening to what other women have said I realise they have either been called that or felt it. That helps me put my feelings into perspective and get on with finding how I can overcome it."

Aggression

The essence of assertion, says Bryce, is to stand up for your own rights and respect those of others. Aggression is standing up for yourself but not respecting other people's feelings. "The assertive manager," she says, "should be confident of saying no to a request without causing offence." Simple as this may sound it is a tricky one for women who traditionally are taught to put the needs of others first.

Bryce claims that while infants of both sexes are taught not to butt into a conversation this all changes in adulthood. It is generally observed, she says, that men tend to compete for attention while a woman will defer. Her advice: "When two people start to speak at once make sure you are not the one to shut up. Raise your voice and carry on speaking." One participant suggests that such a competitive quality, with little attention to somebody else's feelings, is not to be admired. "It is a tough world out there and you simply will not get on if you do not compete in the same way as men," says Bryce.

On the first day the women discussed situations in which they did not feel confident and why they felt a course would be beneficial. "I feel sometimes that I am seen as a soft touch and that I am not as assertive as I could be," said Julia Kerley, a softly spoken technical manager at Unwins Seeds. Her self-description was "small and shy." Lynne Boardman, a striking, tall organisation and methods analyst who has recently joined her head office at Nationwide Building Society, said: "My male boss suggested I come. He said I had no problems about being assertive but thought I should go on a general management course to help me deal with other departments. While I was at a branch office I did not need that skill."

Day two is spent on looking at techniques for self assertion. Meetings as a forum are picked out as being of particular importance with Bryce making the important point that if you say nothing at a meeting it is likely to reflect on how people judge your work generally.

A large part of the afternoon is taken up with two simulated meetings with four women being watched by their colleagues and vice versa as they conduct a 30 minute meeting. Examination of actual topics —on sexual discrimination and what skills women need to develop to overcome it—is less important than the skills demonstrated in discussing them.

After role playing comes the $64,000 question of what to to do with lessons learnt. Bryce stresses the need for action planning. Women, she points out, are less likely than men to plan their careers and their goals.

One participant says she is resolved to change her job. Another says: "I had doubts as to whether or not I was management material. I now believe I can join the race." A third adds: "I've decided I should pursue a professional qualification." A fourth, with a tendency to dominate and not listen to others' points of view says: "I never thought I had a problem about being assertive and I was a bit confused as to why it was suggested I came on this course.

"One of my weak points at meetings was I didn't like uncertainty and being thrown in at the deep end and having to respond to things I was not sure about. Now I'll try and listen instead of letting panic take a hold. My goal is to deal with senior members of my staff in a different way and remove friction."

Television/Christopher Dunkley

Never mind the face, feel the quality

Inside the television industry it seems to be widely believed that there are significant differences between BBC1's *Nine O'Clock News* and ITV's *News At 10*. Yet to those outside I suspect the differences seem negligible, at least to casual viewers. Perhaps this is not especially surprising. Within the industry, people are deeply concerned with details, as close competitors are in any line of business — Hertz and Avis, Tesco and Waitrose — and the *minutiae* loom large.

But to the public what counts is the content and general presentation of the news and nowadays both content and presentation tend to look virtually identical on the two services. This is not mere chance. Six or seven years ago critics began to say that ITN was starting to do a better job than the BBC, a judgement which was first loftily dismissed by the Corporation (which has an understandably high regard for its own news traditions and reputation established during World War II) then began to cause faint worry: then, when the judgements persisted, irritation; and finally, when the ratings showed that the BBC no longer had a lead, deep anxiety.

Consequently, after the BBC's most recent remodelling, the *Nine O'Clock News* emerged as a remarkably close copy of *News At 10*. In place of the BBC's single news reader we were given teams of two, as with ITN. In place of the old "venetian blind" opening we were given a much more modern gee-whiz set of titles.

In ITN's title sequence the camera swoops over the Thames and picks out London landmarks before showing Big Ben with "News At 10" superimposed. Then the picture cuts to a quick sequence of news-clips with the voice of Alastair Burnet or Martyn Lewis "doing the bongs," which is house slang for reading the menu of main news stories between the strokes of Big Ben. Only then does the picture dissolve to show the newscasters in the studio. ITN has always rejected the BBC term "newsreader," claiming that its presenters are not merely readers but professional journalists with powerful personalities, equally capable of collecting and preparing the news as well as delivering it to the audience.

The news teams, ITV top, BBC bottom

The BBC's title sequence is now more grandiose than ITN's, seeming to imply that the BBC's news is not presented from anywhere so mundane as London, but from outer space. Indeed the impression is that it is read by the man in the moon. The sequence starts with the newsreaders in black silhouette and planet earth curving away into space behind them, British Isle uppermost. Then a stream of yellow blips (digitalised electronic messages?) rains down on London, bounces out to the ionosphere to spell out "Nine O'Clock News," and the reader delivers the menu — though without the bongs.

The similarities continue throughout the programme. *News At 10* long ago started stringing together "quickie" items in the middle of the programme, often with still pictures instead of film reports. The *Nine O'Clock News* uses similar quickie sequences. ITN has long used a bright blue background for its newscasters, and now the BBC uses a bright blue background, adding a low key-light to give a god-like penumbra to the news readers' heads. ITN fades out with its newscasters exchanging a few words which are masked by the closing music, and now BBC news readers are required to do the same—often looking deeply uneasy.

The similarities extend to technical details. With the electronic mass media supposedly driving fuddy-duddy old print out of business, what do we find (apart from a steady flood of new magazines and newspapers?). Television news programmes are filling their screens more and more with writing. ITN's Geoffrey Archer tells us from South Africa that there has been a pitched battle. "Pitched battle" says the writing on screen. A BBC reporter says that a judge described the rebel Labour councillors' action as wilful misconduct. "Wilful misconduct" declares the writing on screen. Sandy Gall reads a piece about Landrover under BL management, and the General Motors approach. "Landrover" says the writing on screen, "Management," and "General Motors." No doubt it is a great help to the deaf.

Both services suffer from linguistic sloppiness. Jan Leeming still talks about bombs being "diffused" (i.e. scattered in all directions, or presumably, exploded) when she really means "de-fused" (i.e. not exploded). At ITN nobody seems to know the difference between "convince" and "persuade." The Bruno fight "convinced" Coetzee to give up boxing" we were informed in a typical recent mis-use. On Sunday's BBC news, in an item anticipating the Budget, we were told that beer *should* go up by a penny or twopence a pint.

And there are more serious errors. On the night that I began detailed monitoring of the news programmes for this column, the BBC announced that England had lost the one-day cricket match in the West Indies. ITN not only got the result right but showed England scoring the winning run. Last week both services repeatedly used the phrase "aggravated hurglary" in connection with the vicarage rape, but *neither explained it*.

Despite having a smaller foreign staff than the BBC, ITN exploits its foreign activity more impressively. Admittedly they sometimes hype it too much: Colin Baker's report last week on cocaine smuggling in Miami did not justify its occupation of the entire first half of the programme, and the footage showing US coastguards firing on a Colombian fishing boat looked suspiciously similar to an American programme I saw last year. But Michael Brunson's recent reports on life in Moscow and John Suchet's from Scottish highlands would have gone to a proven word spinner such as Fyfe Robertson. Today it goes to Selina Scott, the person who asked the Booker Prize judge "Did you read the book?" and whose Scott Free scripts continue on that level.

However, the difference in foreign coverage is scarcely dramatic and, as I have already indicated, the news stories and production techniques of the two services are now strikingly similar. Yet over a period of time you do notice a significant difference. ITN seems to me wholly justified in laying the importance that it does on using people of obvious standing to convey the news. The fact that Alastair Burnet has edited The Economist, that we see him interviewing Cabinet Ministers and anchoring live election programmes and that he has — by all accounts — a considerable say in ITN's editorial policy is vital. So is the occasional sight of Sandy Gall flogging his way through the Hindu Kush.

Admittedly some of ITN's other newscasters have less experience and authority, but the important and ominous point is that on the BBC news nobody seems to have it. Of course the quality of your information is finally what matters most to any news service, but the Americans have shown the vital role that can be played by journalists of real repute: from Huntley and Brinkley in the sixties to Peter Jennings and Dan Rather today. It has been the standing of the newscasters as journalists which has given American television news such clout.

What can the BBC do? Once upon a time they would have had on the staff a number of admirable and experienced journalists who might have been tempted by a job combining news presentation and an editorial say. Richard Dimbleby would have been one obvious choice. Bill Hardcastle another. In their generation television *attracted* much of the top talent in journalism: people such as James Cameron, Malcolm Muggeridge, Trevor Philpott and Kenneth Allsopp were glad to work for television, and television was glad to have them.

Today television seems more concerned with appearance than talent. Recruitment of journalists and presenters seems to pay more regard to those who wave their arms, dress oddly or win beauty contests than to those with journalistic skills. Time was when an out-and-about series in the Scottish highlands would have gone to a proven word spinner such as Fyfe Robertson. Today it goes to Selina Scott, the person who asked the Booker Prize judge "Did you read the book?" and whose Scott Free scripts continue on that level.

If David Dimbleby, John Tusa (from the excellent *Newsnight*) or Peter Sissons (from the impressive *Channel 4 News*) could be lured onto the *Nine O'Clock News* the BBC would be heading back into the competition. For the long term they might extend the thoroughness with which they train engineers and canteen staff to cover journalists.

Der fliegende Holländer/Covent Garden

David Murray

The new Royal Opera *Flying Dutchman* no more *shows* us the whole opera than does the Coliseum *Parsifal*; neither counts as a failure, but where a *Flying Dutchman* skids there is much less in the score to support it. On Monday night a goodish cast swarmed up and down the heaving stage that David Fielding has designed for Mike Ashman's production without coming to grief (though the Dutchman himself looked not to have found his sea-legs yet). Gerd Albrecht conducted very competently, very briskly, with brassy flair. It was more interesting than exciting, and more exciting than moving: Ashman disdains anything picturesquely romantic, but without the ring of haunted passion *Der fliegende Holländer* is little more than quaint.

The ships of Daland and the Dutchman pitch mightily, but they are tramp steamers, with natty modern mariners on Daland's. For the marital negotiations later Daland goes into pin-stripe (flashier than his accompanying quartet of solicitors). The spinning maidens have become the employees of a hawser factory, in smocks and mob-caps, superintended by old Mary from an industrial platform; Senta, who looks a bit of a hoyden, delivers her ballad from there. We get a shop-floor knees-up in the third scene (the opera is performed as one continuous act), with the ghostly vessel pulled into it like a Trojan hippo — whereupon it disgorges suppurating X-certificate zombies. They are too busy suppurating to sing, and their offstage voices were dimly transmitted.

The onstage choruses were lusty, but for a pallid spinning song, and the principals sounded full-blooded enough. Siegfried Jerusalem makes the forsaken Erik sympathetically virile, though the period graces of Wagner's tenor line are no more his style than they were in his recorded *Tannhäuser* Walther. Laurence Dale's Steersman, for whom much cavorting is prescribed, preserves his vocal manners admirably. Anne Collins' Mary is well sung as well as funny, and Robert Lloyd enjoys himself hugely as Daland —rather too sophisticated a joke for the good of the opera, perhaps.

The fated lovers were not yet in focus for this first night. Simon Estes' burnished baritone and determined intensity are a fine beginning for a Dutchman but his vocal address is oratorio-smooth—except at crises, hardly a phrase got any special dramatic inflection throughout the evening. Complicated inner torments had to be taken on trust and the result was rather distinguished but detached. Rosalind Plowright aims to do more (and some missing lustre returned to her voice as the performance went on): Senta's ballad, however, was only a breathy sketch—quick passages half-swallowed, long phrases never fully sustained. Still, this was her first shot at Senta and it offered glimpses of *solid promise*.

Sharper, more palpable *rapport* with her Dutchman would help, and a kinder treatment of their duet. It is, after all, the centrepiece of the opera; but it is stiffly directed, and sat glumly in the empty factory (after the hawsers and before the party-lights), and most unhappily prepared by the treatment of spinning-maidens and ballad. If Senta isn't a yearning visionary among comfortable husband-hunting village girls, but only a kook amid the mob-caps, it is very hard to get a good haunted passion going, or even to make the most of the supernatural thrills of Wagner's uneven score. In short, one doesn't believe any of it much; but the machinery is interesting, and so is the Escher-ish visual geometry of the ship-scapes.

Futurists/Cottesloe

Michael Coveney

Dusty Hughes has written a fine new play for the National Theatre, bright, jagged and not at all worthy, even if it is set among the poets and proletariat representatives in the difficult few years after the October Revolution in Petrograd. Richard Eyre's production is like a Meyerholdian futurist production, full of declamation, poetry and banners, William Dudley's fairground functional design resembling a decadent version of Mayakovsky's *Mystery-Bouffe* as revived on May Day 1921: circus colours flooding the ferris wheel of girders, Dadaist black and white piano (sprouting phonograph horns), cranes and circular staircase.

This fantastic scenography bursts open after Trofimov is seen, against a silken Moscow Art cherry orchard, insipidly berating Anya for exploiting the peasant classes. Squealing pigs (the first of many stunning sound effects supervised by Dominic Muldowney) announce the explosive arrival of Daniel Day Lewis as Mayakovsky, a shaven-haired cultural anarchist in a yellow coat who resembles both the photographs and, most curiously Mr Norman Tebbit.

You might have expected the scene to shift to some stuffy literary office, but the direct address comes from the stage of the Stray Dog Cafe where the artistic splinter groups — Futurists, Octobrists and Acmeists lay out their wares and are heckled by the little proletcult Robespierres, led in a flat cap and flat voice by Fred Pearson.

Will the Bolsheviks adopt the Futurists? Luckily for us the issue is skilfully distributed among various personal rivalries and dilemmas: the heroic Mandelstams are derided for Osip's harking on the past and hauntingly portrayed by Roger Lloyd Pack (serenely reciting through diffident clouds of cigarette smoke) and Harriet Thorpe; the tottering marriage of Anna Akhmatova (Charlotte Cornwall, listlessly hypnotic) and Gumilyov (Jack Shepherd at his most casually steely), is interrupted by a Cheka agent (Ian Bartholomew) who is in love with Anna, wants to be a poet and betrays Gumilyov. Gorky himself (David Calder), Revolutionary hero, friend of Lenin and literary patron, presides over a confused squabble of admirers at a birthday party that turns into a dawn raid — but only after the first editions of *Faust* have arrived hot off the presses.

Several strong scenes involve the old dog Gorky and the poet Gumilyov; in 1921, at which year the play *settles*, Gorky went into exile, Gumilyov was shot. Gorky's dejection sets in with the ruthless suppression of the Kronstadt Uprising. Gumilyov is an unlucky victim of a conspiracy he would have preferred to join. Such is the play's reading of his fate (still a matter of historic conjecture) and his execution follows a classic prison scene where the officer ends up offering the poet a sample *of his own sentimental* scribblings.

The cast also includes Julian Fellowes as a sweatily epicene club manager, switching with the fashion; Clare Higgins as an impassioned Lili Brik, spurned by the jerkily Expressionist ambiguous figure cut by Mr Day Lewis (who could be the hottest property since Jonathan Pryce); and Christopher Guinee as a trembling Alexander Blok. Peter Blythe doubles as the Romanov convert and a regretful Lenin, and I liked the pianist's premonitory steal from that Moscow State Circus lady who plays her instrument upside down.

London City Ballet/Ashcroft, Croydon

Clement Crisp

London City Ballet calls the first of its two programmes in Croydon this week a "mixed bill." It proved to be as mixed in its qualities as in its components, as five pieces set out *variously to tickle an audience's* palate with jokes or pop songs or Bowdlerised Shakespeare or religiosity. It may all be well intentioned, but on Monday night I thought it fatally dull in conception and execution.

The two most assured works —Jack Carter's *Quodlibet* and Peter Darrell's *Othello*—make most sense with the present casts. *Quodlibet* is determinedly roguish to Ponchielli's piano and wind quintet, and it encourages a pertness of behaviour which increases one's fear that the thin ice of the choreography is not going to bear the weight of the heavy comic posturing and outraged glances so generously provided by the dancers. *Othello* relies for its effects upon its interpreters being able to make the most of the calligraphic gestures with which Darrell fixes the emotional crises in the action. *Nigel* Spencer is successful in capturing the jagged, angular motif that tells of Iago's spleen; the other players tear various passions to tatters around the gentle innocence of Annapaola Pace's Desdemona. LCB's chamber orchestra copes manfully with the Liszt score, but it produces the effect of musical anorexia.

Gary Trinder's *Pie Jesu*, a duet set to the most plangent movements of the Fauré Requiem, has a soulful air which would not come amiss in any anthology of mortuary kitsch. Its combination of aspiring faith, treble voices and religious gymnastics, has the ripely pious manner which could turn the most curmudgeonly to reveries about plastic blooms and the Dear Departed. Maybe Hell will turn out to be other people's views of Heaven. Wayne Sleep's *Winding Road* is hamfisted in manipulating a girl (Denise Barber) and six chaps dressed in white, to orchestrations of Beatles' songs. The audience is able to hum along with the tunes.

The novelty of the evening, Rosemary Helliwell's *Il piacere*, has the desperate air of a stand-up comedian whose routine is dying round his feet as he awaits the first raspberry from a disgruntled public. It involves 18 dancers, and its parentage might be summed up as "out of *Symphony in D* by Elite *Syncopations*." The result is less than encouraging. Kylian's *Symphony in D* is a disaster area of brutish physical comedy, whose procedures Miss Helliwell extends in frantic little episodes of nervously insistent facetiousness. There is the flexed-foot joke; the funny-walk joke; the bump-the-girls-along-the-floor joke; the clamber-round-my-neck joke. It is Joe Miller's choreography. Rose Coutts-Smith has designed a pleasant Art Déco back-drop but undone her good work in vulgar costuming, which resembles the brilliantly painted all-over leotards of Ian Spurling's design for *Elite* in manner, but not in wit. Particoloured tights, tiny frills, tassels at the girls' breasts, help confirm the general impression of a ballet of frenetic imprecision.

Mahler's Seventh/Festival Hall

Dominic Gill

The Seventh is the least known and least performed of all Mahler's symphonies — not merely because it calls for a huge and expensive orchestra, but because it is in many ways less approachable, less cohesive, and less instantly engaging than any of the other eight. The two large outer serious heavyweight arguments, difficult to give focal point to, oddly blunt (in Mahlerian terms) in their dramatic stance. The finale at its brassiest produces a familiar Mahlerian blaze: but even that blaze is solid, not unyielding but expressively four-square.

Few conductors manage to strike a satisfactory balance between these solid, epic outer movements and the trio of fleeting night-music pieces that lie in between: the emphasis is given to one or the other, but rarely, with equal success, to both. It was Esa-Pekka Salonen's virtue with the Philharmonia on Monday almost to make the symphony stand coherently on its outer movements alone: but while doing so some of the defter magic of the inner movements passed him by.

I admired his confident way with the opening *allegro risoluto*, and his command of the many different ideas presented in swift succession, by turns proud, swooning, urgent, fiercely apprehensive. And in the finale too, where the Philharmonia gave him their closest attention, his direction had an energy that was ideally firm and flexible. The night musics should provide the greatest possible contrast to their massive frame, daft, delicate, a draught of night wind. Salonen's reading of them was observant but unsubtle: in the first even a little prosaic (the cowbells in the auditorium box sounded suspiciously like breaking crockery, an that didn't help). The shadowy scherzo (Mahler's own adjective) was fairly broadly, brightly lit; and nowhere did he quite catch the flirtatious accents, sudden and surprising, of the third night-music serenade.

The Killing of Sister George/Oxford Playhouse

Antony Thorncroft

Frank Marcus's *The Killing of Sister George* hit London hard when it was first produced 21 years ago in that *annus mirabilis* which also saw Pinter's *The Homecoming*, Peter Shaffer's *Black Comedy*, Edward Bond's *Saved* and Osborne's *A Patriot for me*. It set a sensational theme for the time, lesbian love, against that most traditional of *English* backgrounds, a radio soap opera built round a village hardly a murmur away from Ambridge. It was the first play to mention the "pill."

Cambridge Theatre Company's touring version, which is currently at the Oxford Playhouse before visiting Darlington, Cambridge, Aberystwyth and Taunton, treats it as a period piece, which is a mistake: the play *holds* up *better* than some of the performances.

"Sister George," the lovable village nurse, is for the chop. Ratings need to be boosted and her "unconventional" behaviour, assaulting nuns in taxis and the like, make her expendable. A previously planned audience boost—"who made Rosie, the barmaid, pregnant?" —does not seem to have worked as well as it did last year for Eastenders.

"Sister George" is a massive dual role, and, while not quite shaking off the shadow of Beryl Reid, Marjorie Yates creates a convincing portrait of self-destruction as she kills the love of her companion, Childie, by forcing her into such submissive acts as eating cigar butts and drinking her bath water. But at the end, as she practices her new role as a cow on a children's programme while listening to her funeral at "Applehurst," she is still capable of a defiant "moo."

Lavinia Bertram is almost too diffident as Childie, and it is unfortunate that the finely *built* woman should be twice mocked for her flat chest. But she becomes increasingly convincing as the inadequate drifting towards anyone who is affectionate but firm, in this case Christine Edmonds, the lady from BH who deprives Sister George of both job and mate. The final part of Madame Xenia, an indigent gypsy, is embarrassingly written and performed. In the main though this tragi-comedy is spiced up boulevard theatre which keeps a loose hold on the attention in Sue Dunderdale's sometimes unfocused production on Amanda Fisk's finely detailed set.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Mar 14-Mar 20

Theatre

NETHERLANDS

Amsterdam, Bellevue Theatre. English Speaking Theatre of Amsterdam with Orton's Entertaining Mr Sloane directed by Grant Coburn. All week except Mon, matinee Sun (247248).

LONDON

The Scarlet Pimpernel (Her Majesty's): Donald Sinden in resplendent plummy-voiced form as Baroness Orczy's one-man resistance movement to the French Revolution. Opera director Nicholas Hytner's efficient and sparkish production has smoke, tumbrils, rat stew and rolling heads. (930 4025).

As You Like It (Barbican): Much improved since last year's Stratford-upon-Avon season, Adrian Noble's loosely Edwardian production now emerges as a secret-garden adventure where Rosalind (Juliet Stevenson) has the sisterly devotion of Celia (Fiona Shaw) threatened by Orlando (Hilton McRae). A superb Jacques from Alan Rickman. The RSC Barbican repertoire also includes a fine Othello with Ben Kingsley and, in The Pit, Christopher Hampton's absolutely breathtaking, unmissable version of Les Liaisons Dangereuses (628 8795).

Noises Off (Savoy): The funniest play for years in London, now with an improved third act. Michael Blakemore's brilliant direction of backstage shenanigans on tour with a third-rate farce is a key factor. (836 8888).

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's rollerskating folly has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indiscriminate rushing around. Disneyland, Star Wars and Cats are all influences. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 6184).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. (836 8108).

Barnum (Victoria Palace): Michael Crawford with his breathtaking performance as the circus impresario, adding one or two new tricks in a likeable meringue of a musical. (834 1317, credit cards 828 4735).

Guys and Dolls (Prince of Wales): The 1982 National Theatre production. Richard Eyre's production and John Gunter's affectionately lavish designs complement this most joyful and literate of musicals, a fitting tribute to the recently deceased co-librettist Abe Burrows (930 8681).

Torch Song Trilogy (Albery): Antony Sher plays Harvey Fierstein's four-hour triptych of the life and loves of a drag queen fighting for emotional and domestic stability. Truthful playing has the effect of cruelly exposing Fierstein's tackily uneven writing. (836 3878).

Gigi (Lyric): Unconvincing stage revival of Lerner and Loewe's film follow-up to My Fair Lady, Beryl Reid rising inimitably above the material, Jean-Pierre Aumont and Sian Phillips lending more conventional support. John Dexter directs, Jocelyn Herbert designs. (437 3686).

Interpreters (Queen's): Love among the diplomats, according to Ronald Harwood has a superb role for the matchless Maggie Smith renewing a cross-cultural affair with Edward Fox in the shadow of a summit between The Soviet Union and Britain. Fluent direction by Peter Yates of the West End's best new play of the year. (734 1166).

NEW YORK

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T. S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

Brighton Beach Memoirs (46th St): The first instalment of Neil Simon's mix of memories and jokes focuses on a Depression-era Jewish household where young Eugene falls awkwardly in love with his cousin. (221 1211).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): In moving to Broadway, Herb Gardner's touching, funny and invigorating play about two oldsters retains its stars, Judd Hirsch and Cleavon Little, who almost conquer the world when they think they are just bickering with each other. (239 6200).

Big River (O'Neill): Roger Miller's music rescues this sedentary version of Huck Finn's adventures down the Mississippi, which walked off with many 1985 Tony awards almost by default. (246 0220).

WASHINGTON

The Wild Duck (Kreeger): Romanian director Lucian Pintilie follows his production of Tartuffe with the Ibsen classic, again using the stunning set and costumes of Radu and Miruna Boruzescu. Arena Stage (488 3300).

Saleroom/Antony Thorncroft

Sold–for the fourth time

A panoramic view of Lancaster, a watercolour by the early 19th-century artist Peter de Wint, sold for £19,440 at Christie's yesterday. The price was comfortably above the £12,000 top estimate, and the buyer was the London dealer Agnew.

The lot is interesting because its frequent appearances at Christie's allow us to trace the rise and fall in esteem for de Wint, and the art market. In 1875 this view of Lancaster, one of three produced by the artist, sold for 905 guineas, a mighty sum. By 1889 it made the staggering price of 1,100 guineas. In 1935, in a much more depressed market, it changed hands for 170 guineas, to the Fine Art Society. In real terms it was cheaper yesterday than a century ago.

In the catalogue to the sale of English drawings and watercolours Christie's went to great length to prove that a view of the inner ramparts of Seringapatam, the fort where Tippoo was killed by the British in 1799, was by Turner, as were two more on the same subject. The artist never visited India but the saleroom produced convincing evidence that this was his work. The watercolours had previously been attributed to William Daniell. Perhaps not everyone agreed with the argument for the Leger Gallery acquired the main view comparatively cheaply at £7,560, while the other two went for £4,860 and £9,180.

Also cheap were two rare drawings by Reynolds. Few of his drawings survived. These were rough sketches for an uncompleted painting of Macbeth and the witches and they sold for £594 and £324. A third Reynolds study, for a portrait, was unsold. In contrast a Turner landscape, with an old oak tree, was bought by a phone bidder for £14,580 as against a £4,000 top estimate.

A distant view of Lyons by William Callow was bought by Agnew for £10,040 (as against 8 guineas in 1874), and a David Cox of beached shipping near Flint more than trebled its estimate at £10,260. Travellers resting on a bank beside the road to Tonbridge, by Paul Sandby, just about trebled its estimate at £9,180.

A London dealer, McConnel Mason, outbid his continental competitors to acquire the top lot at Phillips sale of 19th century continental paintings. He paid £27,500 for a view of the Grand Canal in Venice by Federico del Campo. Another Venetian view by the same artist, this time of the Palazzo Vendramini, went much more cheaply, for £16,500, showing the importance of a famous view.

"The Waiting Slave," a painting very much to Middle Eastern taste depicting a pretty girl holding a Turkish coffee cup made £18,700. It was painted by Charles Lecomte-Vernet.

هكذا حيه بالأصل

LETTERS TO THE EDITOR

Trend towards employee share schemes

From the chairman, Cockman, Copeman and Partners

Sir, — Charles Batchelor's excellent article (March 14) on employee share schemes clearly demonstrates that such arrangements are now a permanent feature of British industry. The future potential for these scheme is obvious from his article, particularly with reference to the London School of Economics' survey which showed that the share price of companies with share schemes had risen faster than those without and the companies which introduced all three types of scheme performed best.

Even if we are approaching the 4,000 mark for the total number of share schemes being submitted for approval, we still have a long way to go (even after taking account of the different sizes of the two countries) when we compare Britain with the United States of America where there are over 250,000 employee share schemes, and one-third of adult share owners participate in employee share purchase plans.

How best can we develop this encouraging trend and ensure that it has the most impact on British industry? One way, as the article indicates, would be for the Government to adopt the Wider Share Ownership Council proposal (which is similar to one my own company submitted to the Chancellor before the 1984 Finance Bill was published), that a condition of approval for an executive scheme should be that there is a widespread scheme available for employees generally in that company.

Another way would be for the institutional investors, through their investment committees, to act as more than mere watchdogs counting allocations against arbitrary limits. In my opinion the investment committees should be far more supportive of those relatively few companies who have included genuine performance-related targets which have to be achieved before options can be exercised under a selective scheme. While a number of the more entreprenurial smaller companies have included such provisions, very few large companies have done so, Blue Circle Industries and the BBA Group being honourable exceptions.

Even general employee profit sharing schemes can be made more exciting by the amount being set aside each year being on a geared basis, rather than simple automatic percentage of profit. Sainsbury has demonstrated how the use of such a target can indeed enable its employees to get more than the "normal" 5 per cent of profits in a particularly good year.

The investment committees are bound to find continuing pressure from successful companies to make more shares available to their employees. I believe the committees should look really hard at performance criteria such as I have described to enable those companies that do perform well to pass a larger proportion of the company to their employees than those who do not. After all, for all shareholders it is better to have 80 per cent of 20, rather than 90 per cent of 10, or 100 per cent of 5 and this is the message that has to be accepted and enforced if employee share schemes are not going to be seen in the long term as merely another easy ride perk for senior managers.

Richard Cockman,
26-28 Bedford Row, WC1.

Labour-saving technology and wages

From Mr M. Ryan

Sir,—Michael Prowse's article on UK Productivity (March 13) shows clearly that, as things stand, we can only expect a reduction of jobs in the manufacturing sector. The gist of his article is that Courtaulds Spinning — which is no doubt typical in this respect — has introduced labour-saving technology not so much to increase productivity as to improve quality. That means that reducing wages instead of using new technology is not what will make British industry more competitive.

With so much labour-saving going on, what is needed is a policy for the redistribution of leisure. Let us say that Courtaulds Spinning has awarded a 9 per cent increase to its remaining labour force, in line with the current average annual increase in manufacturing industry. Instead it could have reduced the working week by two hours and awarded pay rises of 4½ per cent. Then it could have employed twenty people for every nineteen and ended up with similar labour costs. Not a great increase, perhaps, but surely a step in the right direction.

A scheme like the wage inflation tax proposed by the Alliance might encourage such a settlement. Does the Government have the imagination to introduce one?

Matthew Ryan.
6, Birnam Road, N4.

Not much vroomph for Channel tunnel traffic

From Mr N. Taylor

Sir,—Following the peak of publicity for the Channel tunnel in January one could be excused for feeling confident there is, no doubt, considerable arm-twisting going on behind the scenes. We have been reassured that the tunnel will be able to handle all anticipated traffic well into the 21st century. The assumed viability of the tunnel (twin 7.2m diameter tubes), is based on the information contained in the report by the Franco-British Finance Group published in May 1984, from which the figures used below are gleaned. This report shows, inter alia, the anticipated traffic both passenger and freight from 1993, the hopeful opening date, through to 2027, and analyses the train requirements to handle the average daily traffic. The passenger figures taken as critical are those for the peak period, ie the 3 summer holiday months, which are about twice the average figures for the rest of the year.

Now, imagine yourself as a family going on holiday to the Continent in July, and setting out from Birmingham. You do not have to make any train reservations, you merely arrive at the tunnel terminus and drive on to the double-decker car transporter wagon on a first come-first served basis. It is a Saturday morning, you have all breakfasted early, pack the car and set off at 8 am soon to be driving along the motorway network at 70 mph, the sun is shining and all is well — except that 15,160 other people are doing the same. (There could well be many more since it is a weekend but the report appears to have forgotten about weekend traffic). Some 15,163 people, according to the report, will be accommodated in 5,415 cars.

These 5,415 cars are all racing along the motorways, converging as they near Kent, where they could, and probably would, arrive at 1,500 cars an hour, well within motorway capacity. Most people will aim to arrive at the terminus in the morning in order to be in France in the early afternoon, not unreasonable. We could thus expect over 5,000 cars at the terminus between, say 10 am and 1 pm, but, don't forget the 11,303 (summer average) coach passengers and 4,521 (summer average) day trippers, to say nothing of 1,568 heavy lorries. These lorries would be carried on freight trains which are designed to carry 156 lorries per hour (26 per train) for 10 hours then 52 lorries per hour for 10 hours, per day. The passenger trains would transport 1,072 cars and 52 coaches per hour (with 40 passengers per coach). If all goes well it would take 5 hours to transport the 5,415 cars and 7.6 hours for the coaches. Pity the unfortunate day tripper who having arrived at the terminus at 11 am not getting to Calais until 4 pm—some may not get through till 8 pm, some day trip! The lorry drivers would fare even worse, if most of them arrive at the terminus before 1 pm the last could be going through at 8 pm. It does not require much imagination to predict drivers' feelings, to say nothing of language.

But, this is the prediction for the first year of operation, 1993. By 2008, when it is anticipated the loans should have been repaid, predicted traffic will have increased by about 50 per cent. Cars would have to wait for 4 hours and coaches 10 hours. It would take the full 24 hours to get all the lorries through. Even at the 1993 levels of traffic for most people their first crossing would likely to be their last. In 1994 they would all be back on the ferries, as almost certainly would the lorries. The tunnel could not be viable without the freight traffic which is assessed to provide 30 per cent of the operating revenue; car traffic would provide a similar proportion.

The report extends its forecast to the year 2027 when the traffic figures given are about double the 1993 level. I will not attempt to present the likely scenario. And bear in mind that the figures I have quoted are summer averages not weekend densities.

For most of the travelling public the answer is pretty obvious, there would not be a next time. For the backers, or investors, however, it is not so simple, they have to make up their minds some seven or eight years ahead of opening date, ie now. Once support is promised they cannot opt out. If the traffic falls off they lose their money.

N. O. Taylor.
Ghylls,
Box, Glos.

Negotiable charges

From Mr J. East

Sir,—I was interested to read (March 7) that the Panel on Takeovers and Mergers proposes to levy charges for reading documentation relating to takeovers. I understand that these charges will be levied under a fixed scale.

In the light of Bing Bang I wonder if these charges will become negotiable on October 27? I fear not!

J. R. A. East,
Margetts & Addenbrooke,
65 London Wall, EC2.

Floating the TSB

From Reverend Dr J. Vincent.

Sir,—It is a matter of opinion whether "the flotation of the TSB is closer after Scots court ruling" (Michael Cassell, March 13).

The Acts of Parliament affecting the TSB in Scotland are different from those relating to England and Wales. Moreover, the Scottish ruling was merely on one particular point—as to whether the depositors own the assets.

Before the trustees can be adjudged competent to dispose of those assets, a decision would have to be made that those trustees own the assets. In the normal understanding of trusteeship, money is held in trust for other people. You cannot sell what is not yours.

The question of who has rights over the TSB is at present *sub judice* and I am one of the interested parties. It is therefore incorrect for the TSB, as quoted in your article, to say that "the TSB group will get owners only when it floats," as if it could be assumed that the possibility of changing a trusteeship into an ownership could be taken for granted.

John J. Vincent,
239 Abbeyfield Road,
Sheffield.

The school system

From Mr W. Bailey

Sir,—The structure, style and content of our school system are essentially mediaeval. Most of our workforce has been educated since the 1944 Act, the vast majority in the state system. Result: accelerating economic decline, currently cushioned by North Sea oil. Conclusion: Anthony Harris (March 8) is near the truth —a radical overhaul of the schooling system is long overdue. And the major objective must be to teach our children relevant skills and to cut back on many traditional subjects.

The whole system suffers from positive feedback — a condition well known to engineers which leads to self-destruction. In short, we are reinforcing in schools the very skills and attitudes which are superfluous to our economy; and we do this by recycling into teaching the very people whose employment prospects in industry are low — low, because they have the wrong skills and attitudes.

Pressure for change in schooling is not coming from society's failures. It is coming from managers and industrialists, the "successes" of our educational system, who know the score abroad. They know that our system which exposes every child to an archaic curriculum, rejects two-thirds as failures without skills, and ill-educates the remainder, is a monstrous complacent anachronism.

W. H. Bailey,
Cliff House, Llancarfan,
Barry, S. Glam.

Benign fuel projects

From Mr W. Orchard

Sir,—R. H. Campbell (March 7) is right that the power engineering industry needs orders. So does the construction industry, also the inner cities need refurbishment. He is also right that we need fuel diver-aification. His conclusion that nuclear power to generate electricity offers the only route is short sighted.

Sweden, Germany, Denmark, Finland and many other countries in Europe achieve fuel diversification through heating their cities with piped hot water using heat normally wasted when generating electricity. The system is called combined heat and power, and is being examined for London, Sheffield, Newcastle, Leicester, Edinburgh and Belfast.

Government work to date indicates that with the joint sale of electricity and heat, such projects earn similar or better rates of return than Sizewell. Nationally, CHP projects displace substantial amounts of imported oil and gas, giving balance of payments benefits, an important factor according to a recent House of Lords report. CHP also provides employment in inner cities with very substantial work for the power engineering and construction industry.

Government has chosen to put CHP, whether coal- or refuse-fired, tidal barrage and other electricity-producing options at a disadvantage to Sizewell by requiring these more benign projects to be private-sector-led and funded, with the price paid for any electricity generated in the schemes being determined by the electricity supply industry, which is in a position to discourage competition.

The Central Electricity Generating Board, because of its monopoly position, enjoys locked-in consumers to underwrite its projects and, being in the public sector, considers projects viable which the private sector would not.

If Mrs Thatcher is serious about market forces, let her put the building of further nuclear power stations on the same basis as the competing sources of private electricity generation. Let the market and the private sector decide.

W. R. H. Orchard.
3, North View,
Wimbledon Common, SW19.

No absence of entrepreneurs

From Mr M. Smith

Sir,—I feel I must comment on your article, "An absence of entrepreneurs" (Lombard, March 13). Your correspondent states: "There is no question of a return to capitalism in Russia because it never was a capitalist country—not even under the Tsars." In this your correspondent is sadly mistaken. Tsarist Russia was a capitalist country par excellence.

Industry was expanding with explosive force—pig iron production was 1.3m tons pa in 1884 but by 1913 it was 5.1m tons pa. Coal production doubled, to 40m tons pa from 1900 to 1813. From 1880 to 1894 oil production increased by 15 times and railway construction outpaced even the United States. Admittedly this was financed largely by foreign capital, by 1914 R2bn of private capital was invested and the Tsarist Government borrowed R3bn abroad. But the Morozov brother amassed a fortune of R25m from textiles and sugar.

I admit there cannot now be many survivors still in Russia who even remember 1917, probably more survivors are living abroad. The Romanov Empire was doomed when the Volonsky Regiment (Imperial Guard) turned on their officers at 6.00 am February 27 (OS) 1917. The Tsar abdicated, after having been "immobilised" by being sent on a "round tour" of the Russian railway system by the railwaymen and ended up in Tobolsk. He was replaced by Prince Georgi Ye. Lvov as Regent with A. F. Kerensky as Premier.

The Tsarist government of course ruled with monumental incompetence. All the pubs in Russia were state-owned and provided the major part of the state's revenue. At the outbreak of the war, they were all shut—to save grain. This of course did nothing of the kind but merely privatised the distilling of vodka with an explosion of home distilling and the opening of shebeens. The shortfall in the state's revenue was met by printing still more banknotes. The resultant inflation meant that by mid-1917 it was impossible for the industrial workers to exist on their wages —exacerbated by large-scale speculation in grain by the banks, of all people.

The great tragedy of Nicholas II was that he alienated the whole "capitalist class" from his regime. Savva Morozov, the radical millionaire, supported the Social Revolutionary Party and on one occasion gave Maxim Gorky (Maxim the bitter) his own revolver. Morozov, with personal fortune of at least R15m was hardly a socialist, but he saw that social and political change was an urgent necessity. The majority of the then "entrepreneurs" held similar views to Morozov.

But, I am sure, your correspondent need not be concerned. If Mr Gorbachev decides to imitate the Hungarian reforms, not to mention the Czech attempt, he need have no qualms that the grandsons of the "Tsarist" entrepreneurs will not speedily accept their new-found freedom.

M. Travers Smith.
73, Sytch Lane,
Womborne, Wolverhampton.

THE BUDGET: The Chancellor's Speech

Borrowing target 'errs on side of caution' at £7bn

Mr Nigel Lawson, presenting his Budget yesterday, said that reduced oil prices offered an outstanding opportunity for increased exports and reduced imports penetration. He warned, however, that industry must keep firmer control of labour costs and invest more in research, development and training to benefit from cheaper oil. The Chancellor said:

The background to this year's Budget is the dramatic and unprecedented fall in the world oil price. But the Government's objectives remain unchanged: the conquest of inflation and the creation of an enterprise culture.

And the Government's policies are unchanged, too: policies of sound money and free markets. Not least, because these are the only routes to more jobs, and jobs that last.

So my Budget today will carry forward the themes of my two previous Budgets, and sow some seeds for the future. In the course of my speech I shall begin by reviewing the general economic background to the Budget, and go on to deal with the specific issue of oil.

I shall next discuss monetary policy and the fiscal prospect, both this year and next.

I shall then turn to the question of direct help for the unemployed.

Finally, I shall propose some changes in taxation designed to assist in achieving the economic objectives I have already outlined.

As usual, a number of press releases, filling out the details of my proposals, will be available from the Vote Office as soon as I have sat down.

I start with the economic background. The strength and durability of the current economic upswing continues to confound the commentators. We can now look back to five solid years of growth at around 3 per cent a year.

Even more important, 1985 was the third successive year in which we secured the elusive combination of steady growth and low inflation—the first time this has been achieved since the 1960s.

In 1985 as a whole, output grew by a further 3¼ per cent, the highest rate of growth in the European Community, and higher than the United States, too.

Within that total non-oil exports grew by 7 per cent, to reach yet another all-time record.

Despite a marked slowdown in the growth of world trade from the heady pace of 1984, the current account of the balance of payments was in surplus for the sixth year in succession—this time by some £3bn. *Inflation ended* the year at around 5¼ per cent and falling.

Employment continued to rise, though still not fast enough to reduce the distressingly high number of people out of work.

I shall have more to say about unemployment later.

Manufacturing industry, the subject of so much ill-informed comment, had another successful year, with its output up by 3 per cent, its productivity up by almost 4 per cent, and both its investment and its exports up by 6 per cent.

At the heart of this success lies a remarkable turn-around in productivity. In the six years prior to 1979, Britain's annual rate of growth of manufacturing productivity, at less than 1 per cent, was the lowest of all the Group of Five major industrial nations.

In the six years since 1979, our annual rate of growth of manufacturing productivity, at 3½ per cent, has been second only to that of Japan.

Looking ahead, I expect 1986 to be a further year of steady growth with low inflation.

3½% inflation forecast

Indeed, with output forecast to rise by 3 per cent, and inflation to fall to 3½ per cent, 1986 is set to register our best overall performance in terms of output and inflation for a generation.

The pattern of growth should show a satisfactory balance, too, with exports and investment expected to grow rather faster than consumer spending—as indeed they have during the sustained upswing as a whole.

But the uncertainties inherent in *all these forecasts*, good though their track record has been, are reinforced by constant reminders that we live in an uncertain and turbulent world.

One particularly difficult aspect of this is the febrile nature of the world currency *markets*.

There has been some improvement here. The Plaza Agreement between the Group of Five Finance Ministers last September has undoubtedly led to a more sustainable pattern of exchange rates worldwide.

Since that meeting, the dollar has follen by some 16 per cent against the other major currencies as a whole, with the pound moving up by 7 per cent, the Deutschmark by 26 per cent and the yen by 36 per cent—a pattern broadly in line with what those of us who were party to the agreement hoped to see.

This process will be assisted further if the passage of the Gramm-Rudman amendment succeeds in securing its objective of a much-needed reduction in the US budget deficit.

Meanwhile, the Plaza Agreement has already succeeded in reducing, at least for the time being, the dangerous protectionist pressures that were building up in the US.

Provided we are not overambitious, I believe thet the Plaza Accord is something we can usefully build on.

But the most dramatic development on the world economic scene, and one of considerable importance to this country, has of course been the collapse in the price of oil.

I presented my Budget last year at the end of a 12-month coal strike. I observed at the time that it was a remarkable tribute to the underlying strength of the British economy that it had been able to withstand so long and damaging a strike in such good shape.

We now have to face a challenge of a very different kind. Over the past few months the price of oil has almost halved, and with our prospective North Sea oil tax revenues and earnings from oil exports. In real terms, the price is now back to what it was at the end of 1973.

Not surprisingly, perhaps, this initially caused a fair amount of turmoil in the financial markets with sterling under pressure.

I decided that it was right to respond with an immediate 3 per cent rise in short-term interest rates in early January and this helped to prevent the downward movement of the exchange rate from developing an unhealthy momentum of its own.

But equally, I thought it right to resist the pressure, which for a time was very strong indeed, to raise interest rates still further.

Tht pressure in due course susided.

And though the financial markets remain somewhat volatile, the moode has changed considerably, assisted by a modest but welcome reduction in interest rates overseas.

No production cut for oil

Meanwhile, let be repeat that there is no question whatever, and never has been any question, of the UK cutting back its oil production in an attempt to secure a higher oil price.

In the first place, the whole outstanding success of the North Sea has been based on the fact that it is the freest oil province in the world, in which decisions on levels of output are a matter ofr the companies and not for the Government.

And in the second place, we are not only, or even principally, a major oil producer: we are also a major world producer

'While the economy may not gain a great deal overall as a result of the oil price collapse, there *will be considerable differences within the* economy'

and trader of other goods and services and a major oil consumer.

There is no overall UK national interest in keeping oil prices high.

I am of course aware that a report, recently published in another place and which attracted a certain amount of publicity at the time, predicted that: "As the oil revenues diminsh the country will experience adverse effects which will worsen with time,"—*effects* of a most alarming nature.

Had the anthors of that report dreamed at the time that half the oil rdevenaus were about to disappear within a matter of months, their conclusions would no doubt have been even more apocalyptic.

As the House knows, I have always believed their analysis, which was widely shared by Rt Hon and Hon Members opposite, to be profoundly mistaken. But certainly it is going to be put to the test sooner than anyone expected.

The United Kingdom is likely to remain an oil producer, of a gradually diminishing volume of oil, for the next 25 years or so. If we can survive unscathed the loss of half our North Sea oil revenues in less than 25 weeks, then the prospective loss of the other half over the remainder of the next 25 years should not cause us undue concern.

It is, of course, true that in relative terms we do lose from the collapse of the oil price. That is to say, the really big gains will be made by the major non-oil-producing countries such as Germany and Japan, where growth will be boosted and inflation, already low, is likely to fall virtually to zero. And inevitably we suffer a decline in the value of our net oil exports.

But the oil price fall will be beneficial for the industrialised world as a whole, and even for the UK what we gain on the swings should, over time, more than offset what we lose on the roundabouts.

In particular, I expect that the levels of economic activity and inflation will, if anything, be slightly better than they would have been without the oil price collapse.

And what of the balance of payments?

Thanks to the abolition of exchange controls in 1979, we have been able to use a good part of our earnings from North Sea oil since then to build up a massive stock of overseas assets.

Our net overseas assets have in fact risen more than sevenfold from £12bn at the end of 1979 to almost £90bn at the end of last year.

This is a far bigger total than that possessed by any other major nation, with the perhaps inevitable exception of Japan.

The earnings from those assets will be of increasing value to our balance of payments in the years ahead. So, too, should the improvement in our manufacturing trade balance.

For while the British economy may not gain a great deal overall as a result of the oil price collapse, there will be considerable differences *within* the economy.

The major potential beneficiary will be the international trading sector of industry in general, and manufacturing in particular, which is already enjoying both lower oil costs and a lower exchange rate against most of its major competitors, at a time when inflation is falling.

Exports able to increase

This provides British industry with an outstanding opportunity both to increase its exports and to reduce import penetration in the home market.

But it will only be oble to seize that opportunity if it meets two conditions. First, it must keep firmer control of its labour costs.

Second, it must spend more of its much healthier level of profits on investing for the future in research and development and in training. Both the opportunity, and the responsibility to see that it is not thrown away, rest fairly and squarely on the shoulders of British management.

Meanwhile, despite the massive fall in oil prices, I expect the current account of the balance of payments to remain in sizeable surplus this year, by some £3½bn.

As I have indicated, there will be plusses and minuses within the economy. If industry is the main gainer, the main loser, at least today, is the Chancellor of the Exchequer.

I can live with that. But it does mean that North Sea oil revenues, which are likely to amount to some £11½bn for 1985-86, are bound to be very much less in 1986-87.

Indeed, on the assumption of an average North Sea oil price for the rest of this year of $15 a barrel, which is close to the average published price for the past month of around $16 a barrel, oil revenues in 1986-87 will be virtually halved at some £6bn.

This has obvious implications for the Budget. But the important fact is that, just as we successfully weathered a year long coal strike, so we have been able to take the unprecedented collapse in the oil price in our stride.

We have been able to do so, first, because of the underlying strength of the economy in terms of growth, inflation and the external account.

And, second, by virtue of the reputation we have earned over seven years for sound and prudent financial management.

The framework within which that sound and prudent financial management has been pursued, and will continue to be pursued, is the Government's Medium Term Financial Strategy. It provides as firm a guarantee against inadequate money demand as it does against excessive money demand.

At the heart of the MTFS lies the objective of steadily reducing the growth of total spending power in the economy, as measured by GDP in cash terms, at a pace that will gradually squeeze inflation out of the system while at the same time leaving adequate room for sustained growth in real output. That we have done.

Over the past six years the rate of growth of money GDP has been halved, and a further significant reduction is envisaged for 1986-87. This has brought about a combination of low inflation and steady growth.

We shall continue to maintain steady downward pressure on inflation. That means, above all, controlling the growth of money in the economy.

Last year, I set target ranges of 3 to 7 per cent for narrow money, M0, and 5 to 9 per cent for broad money, M3.

During 1985-86 the targeted measure of narrow money has grown towards the bottom end of its range. The target range for next year will be 2 to 6 per cent, as foreshadowed in last year's MTFS.

For broad money it has been clear since the autumn that the range was set too low. Throughout the 1980s—and in sharp contrast to the 1970s—broad money has grown far faster than money GDP. Experience has demonstrated that this has not posed a threat to inflation.

This rapid growth largely reflects the increased attractions of holding interest bearing deposits, at a time both of low inflation and high real interest rates, and of innovation and liberalisation in the financial system.

Accordingly, I am setting next year's target range for broad money well above that indicated in last year's MTFS, at 11-15 per cent.

Given the experience of the past six years, I believe this is not only a more realistic range, but one which is wholly consistent with the further decline in inflation I intend to achieve.

Short-term interest rates are the essential instrument of monetary policy. Changes in interest rates have a reasonably quick and direct effect on narrow money, as they do on the exchange rate.

Their effect on broad money is more complex and much more delayed. As explained in the Red Book there is thus an important difference in the operational significance of the targets for narrow and broad money.

Needless to say, I shall continue to monitor the evidence of other financial indicators, of which the most important is the exchange rate.

I will say no more about monetary policy today. Except to repeat what I said at the Mansion House last autumn: that while financial liberalisation and innovation have inevitably made the process of monetary management more complicated, there has been no change whatever in the essence of policy.

The Government continues to attach the highest priority to sound money.

Though there is nothing sacrosanct about the precise mix, monetary policy must always be supported by an appropriate fiscal policy. That means, in plain English, keeping borrowing low.

The outturn for the public sector borrowing requirement in 1984-85, which had to bear the bulk of the cost of resisting the coal strike, was £10bn, or just over 3 per cent of GDP.

In my Budget last year, I planned to reduce it substantially in 1985-86, to £7bn or 2 per cent of GDP.

In the event, despite the loss of £2bn of North Sea oil revenue, this year's PSBR looks like turning out at a little under £7bn, given that the total for the first 11 months comes to under £3bn.

This successful outcome, which represents the most substantial reduction in the PSBR as a proportion of GDP since 1981-82, is attributable to two factors.

Public spending under control

First, public expenditure has been kept under firm control. Not only is the outturn likely to be within the planning total, but spending in 1985-86 is expected to be below the previous year's level in real terms, even after allowing for the effects of the coal strike.

And the second factor behind the successful PSBR outturn for 1985-86 is that the £2bn shortfall in oil revenues has been offset by the increased buoyancy of non-oil revenues, reflecting a healthy economy and an increasingly profitable corporate sector.

Last year's MTFS indicated a PSBR for 1986-87 of £7½bn, or 2 per cent of GDP. Some would argue that, in the light of the £2¼bn increase in projected privatisation proceeds, I ought to aim well below that.

Others would claim that, since the sharp drop envisaged in oil revenues is more than double the rise in privatisation proceeds, a higher figure would be appropriate.

As last year, my judgement is that the wisest course is to *stick broadly to* our pre-announced figure. But, given the uncertainties over the oil price, I have decided, within that framework, to arr on the side of caution, and provide for a PSBR of £7bn, or 1¾ per cent of GDP.

Needless to say, this does not enable me to reduce taxation by anything like the £3½bn foreshadowed in last year's MTFS.

Indeed, given the assumed loss of more than £5bn of oil revenues in 1986-87, compared with whet was envisaged a year ago, I would have expec*ted to* have had to increase taxes in this year's Budget.

However, not only have the tax revenues this year from the 95 per cent of the economy that is not oil proved to be notably buoyant, but there is every sign that this will continue into 1986-87, assisted by a rather higher rate of economic growth than was foreseen in last year's MTFS.

This continued vigour of the non-North Sea economy, which is likely to add more than £3bn to expected non-North Sea tax revennes, coupled with public spending which remains under firm control, has transformed what might have been a bleak prospect.

As a result, I am oble thia year to accommodata a relatively modest net reduction in the real burden of taxation, of a shade under £1bn.

It may well be that the oil price turns out to be different from the average of $15 a barrel, which I have assumed for this year's Budget. But if any departure is purely short term, it is most unlikely to have any significance for policy.

I turn now to the continuing problem of high unemployment.

It is a problem that can be solved — and there is no secret about how. The solution to the problem of unemployment — and it is the only solution — requires progress on two key fronts.

The first is a sustained improvement in the performance of business and industry, and thus of the economy as a whole. That is what every aspect of the Government's economic policy has been designed to assist, and it is already achieving impressive results.

The second is a level of pay which enables workers to be priced into jobs, instead of pricing them out of jobs, and which in particular ensures that British industry can hold its own against our major industrial competitors.

It is here that Britain's weakness lies. For the plain fact is that labour costs per unit of output in British business and industry continue to rise faster than in our principal competitors overseas.

Productivity is, indeed, rising quite rapidly. But pay is rising faster still.

It is this—and not our alleged dependence on oil — that constitutes the Achilles heel of the British economy.

And in a free economy — as the CBI has frankly and commendably acknowledged—it is the responsibility of employers and management to control industry's cost structure in general and its wage costs in particular.

In the new and improved climate of industrial relations, and with inflation falling and set to fall further, there can be no excuse for failure to discharge that responsibility.

I have, however, considered whether there is anything further Government can do to assist this over the longer term.

The problem we face in this country is not just the level of pay in relation to productivity, but also the rigidity of the pay

'The solution to the problem of unemployment requires a level of pay which prices workers into jobs instead of pricing them out of jobs'

system. If the only element of flexibility is in the numbers of people employed, then redundancies are inevitably more likely to occur.

One way out of this might be to move to a system in which a significant proportion of an employee's remuneration depends directly on the company's profitability per person employed.

This would not only give the workforce a more direct personal interest in their company's success, as existing employee share schemes do. It would also mean that, when business is slack, companies would be under less pressure *to lay men off*; and by the same token they would in general be keener to take them on.

This would clearly be in industry's own interest and most emphatically in the best interests of the unemployed. It should therefore occur without any prompting from Government, but there is considerable inertia to overcome.

So it might make sense to offer some temporary measure of tax relief to the employees concerned to help get profit sharing agreements of the right kind off the ground and to secure the benefits that would undoubtedly accrue if they really caught on.

Inevitably, the design of such a relief, and the precise definition of qualifying agreements, would need to be drawn with considerable care.

The Government therefore propose to discuss with employers ond others to see if a workable scheme can be defined which offers the prospect of a worthwhile and broadly-based take up.

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The Government therefore proposes to discuss with employers and others to see if a workable scheme can be defined which offers the prospect of a worthwhile and broadly-based take-up.

If these preliminary discussions are sufficiently encouraging, we would prepare a consultative document setting out a detailed scheme for wider consideration.

Meanwhile, *there is* more we can do of an immediate nature to help the unemployed.

In my Budget last year I announced the Government's intention to launch a new two-year Youth Training Scheme, leading to recognised vocational qualifications. The new and expanded YTS will duly come into operation next month.

It will be a giant step towards our objective of ansuring that no youngster under the age of 18 need be unemployed.

I also announced in last year's Budget a substantial expansion of the Community Programme to help the long-term unem*ployed—those who have* been out of work for over a year, or, in the case of those between 18 and 24, for more than six months.

The Community Programme, which offers work for up to a year on projects of benefit to the community, is currently providing almost 200,000 places.

I have agreed with my Right Honourable and Noble Friend the Secretary of State for Employment to provide the funds to raise the eventual target for this year to 255,000 places — very nearly double the number that existed a year ago.

At the same time, the overage wage limit for the Community Programme will be raised to £67 a week from next month.

Last November, my Right Honourable and Noble Friend announced two pilot schemes to provide further help for the long-term unemployed. These new initiatives, which began in January, are a counselling scheme open to all the long-term unemployed in the pilot areas, and a Jobstart allowance of £20 a week for six months for those long-term unemployed who take a job at less than £80 a week.

These pilot schemes are already producing results, and I have accordingly decided to provide the funds to develop them into a single programme covering the entire country. This means that every single one of the long-term unemnloyed throughout the lond will be called for an interview and offered help in finding a job.

I shall also be providing tha resonrces to lsunch a brand new scheme—the New Workers Scheme—to help 18-20-year-olds to find a job.

This will provide for a payment of £15 a week for a year to any employer taking on an 18- or 19-year-old at up to £55 a week or a 20-year-old at up to £65 o week. The New Workers Scheme should provide a worthwhile incentive for employers to create jobs for young people.

Finally, I have ogreed to a substantial enlargement of the proven and highly successful Enterprise Allowance Scheme, which makes payments of £40-a-week for up to a year to assist unemployed men and women to set up in business on their own account.

Funds will be provided that will enable the annual rate of entry to the Enterprise Allowance Scheme to be increased from its present figure of 65,000 to 100,000 by April 1987, and to provide more training for those involved. At the same time I propose to improve the tax treatment of payments made under this scheme.

The total public expenditure cost of the measures I have outlined, together with consequential spending in Northern Ireland, comes to £195m in 1986-87 and £285m in 1987-88.

These gross costs will, however, be partly offset by savings on social security benefits, leaving a net public expenditure cost of £100m in 1986-87 and £165m in 1987-88.

This will be financed from the Reserve, and there will therefore be no overall addition to planned public spending.

I now turn to the taxation of business and enterprise. While the measures I have just announced help the unemployed directly, in the long run what really matters is the creation of a *climate* in which business and industry flourish. For it is companies, not governments, which create jobs.

The reformed system of business taxation which I introduced in my 1984 Budget has reached the end of its transitional phase and comes fully into force next month. From then on the UK will have, at 35 per cent, the lowest rate of Corporation Tax of any major industrial nation. This year I have only two further amendments to make.

First, I propose to ensure a full measure of depreciation for tax purposes for short-life agricultural buildings and works, by giving the taxpayer the option of making balancing odjustments on the sale or destruction of such buildings.

Second, I propose to reform the mines and oil wells allowances broadly along the lines of the proposals published in last July's consultative *document*.

The overall net benefit of this to the industries concerned will amount to £45m in 1987-88.

Otherwise I propose only minor technical changes to the taxation of North Sea oil; but I am continuing to keep the economics of incremental investment under review, and shall not hesitate to introduce at the earliest opportunity any changes which may prove necessary to ensure that worthwhile projects ore not frustrated by the fiscal regime.

I need to set the 1987-88 car and fuel benefit scale charges for those with company cars.

At the same time, the motor industry has represented to me that the discrepancy between the engine size break points in these scales and the break points in the new European Community directive on car exhaust emissions is potentially damaging to its international competitiveness.

Accordingly I propose, from April 1987, to change our break points to those in the new directive. At the same time, as last year, I propose to increase the (restructured) car benefit scale charges by 10 per cent. This will still leave the scale charges well short of the true value of the benefit.

Continued on next page

'Britain's overseas assets have risen sevenfold.'

Parliamentary Sketch

LAST MINUTE predictions yesterday afternoon suggested that Nigel Lawson would perform a clever balancing act when he rose to unveil his third Budget.

As usual, the former financial journalist quickly proved that he had a clever way with words, and even Labour leader Neil Kinnock generously awarded him full marks for presentation.

Labour backbenchers dubbed him the "juggling Chancellor" during some of the more gimmicky and bedazzling sections of his speech.

The characteristic Lawson showmanship was very much to the fore, and he could not resist pulling off some clever tricks to leave his audience gasping. More of the conjuror, perhaps, than the juggler.

Admittedly, some of the rabbits he produced out of the hat were not as plump and impressive as some of his Tory supporters had hoped. Nevertheless, there was no denying the skill with which it was done.

The contentious subject of petrol tax brought out the Houdini side of the Chancellor. First he gave the background to the situation, culminating in the assertion that there was clearly scope for a sizable increase in petrol tax this year. "Ah!" gasped Labour MPs assuming that a horrendous announcement was about to be made.

But then, having got the attention of his audience, Mr Lawson had decided that he would maintain the value of revenue from the car owner but would not increase it. At this sudden switch, Tory backbenchers burst into cheers at the assumption that there would be no rise at all.

Once the noise subsided, however, the Chancellor produced yet another card from his sleeve. Yes, petrol duty would be increased to raise the pump price by 7.5p a gallon. But, as vehicle excise duty would remain at last year's level, the burden on car owners would be unchanged in real terms.

Now it was the turn of Labour MPs to jeer at the rather crestfallen MPs on the Tory benches.

It was the slickest episode since Roy Jenkins who, when he was Labour Chancellor, used his Budget speech to pull the rug from under the late Sir Gerald Nabarro, who had confidently predicted a rise in vehicle excise duty.

Roy, in his present position on the SDP bench, came in for some teasing himself yesterday. This occurred when Mr Lawson announced that he proposed to exclude from the Business Expansion Scheme companies whose main purpose was to invest in objects such as fine wines, the value of which would rise over the years.

The Chancellor fixed Mr Jenkins with a meaningful stare at this point, and raucous Labour MPs, quick to take the hint, turned round to jeer at their former colleague. However hard he tries, it is clear that Mr Jenkins will never manage to live down his image as the great claret connoisseur.

The Opposition also had some fun with the proposal to reduce the basic rate of income tax by one penny in the pound.

Unabashed by their scornful response, Mr Lawson pointed out that the Government had previously reduced the rate of 33 per cent to 30 per cent, and was now bringing it down to 29 per cent. So long as this Government remained in office, that would not be the last such reduction, he promised.

"Jam tomorrow," they sneered from the Labour benches.

The Opposition also had some difficulty recognising the optimistic picture of the economy which was portrayed by the bouncy Chancellor.

"The strength and durability of the current economic upswing continues to confound the commentators," he confidently asserted, despite the dismissive laughter from the Labour side of the House.

In contrast to all this hilarity, Shadow Employment Secretary John Prescott did not seem to be getting any fun out of the occasion. He sat on the Labour front bench *scowling ferociously and roaring* disapproval even at the sections of the Budget which seemed to find approval from many Labour MPs.

As Mr Lawson sat down there was a robust cheer and some waving of order papers from Tory backbenchers—but *the support did not seem to* be quite as enthusiastic as when he had risen to start his one-and-a-quarter-hour speech.

John Hunt

THE BUDGET: The Chancellor's Speech

Personal equity plan aims to extend share ownership

Continued from previous page

The fuel scale will also be restructured, but there will be no general increase in the charges; and, as from April 1987, the same scale will also be used to assess the VAT due on petrol used by registered traders and their employees.

This will be simpler and more equitable than the present system, and will also bring in an extra £40m of revenue in 1987-88.

Tax thresholds to be raised

I propose to increase the VAT threshold to £20,500, in line with the maximum permitted under existing European Community law.

I also propose to correct an anomaly in the taxation of international entertainers and sportsmen. When British entertainers or sportsmen work overseas, the foreign tax authorities normally levy a withholding tax on their earnings.

But at the present time we levy no such tax on the earnings of foreign entertainers and sportsmen when they work in the UK.

I believe that, in future, we should fall into line with most of the rest of the world. Accordingly, I propose to withhold tax at the basic rate on the earnings of overseas entertainers and sportsmen in the UK. This should yield £75m in 1987-88.

A key element in the Government's strategy for jobs is the encouragement of new businesses.

As the House knows, I have been reviewing the future of the Business Expansion Scheme, which is due to come to an end in April 1987.

I have been assisted in this review by the independent report commissioned by the Inland Revenue from the consultants Peat Marwick, which is being published in full today. I am placing a copy in the Library of the House.

It is quite clear—and this is confirmed by the evidence in the Peat Marwick report—that the Business Expansion Scheme, which my predecessor introduced in 1983 as an improvement on the 1981 Business Start-up Scheme, has been an outstanding success. It has fully achieved its aim of attracting new equity capital into unquoted companies.

The amount subscribed has been running at well over £100m a year, and steadily rising; and a high proportion of this has gone into new and small businesses.

Roughly half the companies involved raised sums of less than £50,000 each.

I therefore have no hesitation in proposing to extend the life of the Business Expansion Scheme, which is due to expire next year, indefinitely.

But at the same time, despite the exclusions of farmland and property development in my two previous Budgets, I am concerned that too much BES money is being diverted from the high-risk areas for which the scheme was always intended into areas where the risk is very much less.

Accordingly, I propose, from now on, to exclude from the scheme all companies holding more than half their net assets in the form of land and buildings.

I also propose to exclude companies whose main purpose is to invest in objects, such as fine wines, whose value may be expected to rise over time.

At the same time, I have one new inclusion to announce.

I have decided to bring within the scope of the BES companies engaged in the chartering of UK-registered ships.

This will provide new opportunities for investment in shipping engaged in the coastal, short sea and offshore trades. I propose to take power to make further changes in the ambit of the scheme by order.

Finally, having taken steps to target the Business Expansion Scheme more carefully, I propose to improve it. BES shares issued after today will be entirely free of Capital Gains Tax on their first sale.

And as a further measure of help for small and new businesses, the Loan Guarantee Scheme, under which the Government guarantees 70 per cent of qualifying bank loans, will also be extended, in this case for a further three years. The House will be glad to learn that the premium will be halved from 5 per cent to 2½ per cent.

My last proposal in this section concerns Capital Transfer Tax, which ever since its introduction by the Labour Government in 1974 has been a thorn in the side of those owning and running family businesses, and as such has had a damaging effect on risk-taking and enterprise within a particularly important sector of the economy.

In addition to statutory indexation of the thresholds and rate bands, I propose this year to reform the tax radically.

In essence, the Capital Transfer Tax is two taxes, as its two separate scales imply: an inheritance tax and a lifetime gifts tax.

We have had an inheritance tax in some shape or form ever since Sir William Harcourt introduced his Estate Duty in 1894. But the lifetime gifts tax which the Labour Government introduced in 1974, in the teeth of united Conservative opposition, is an unwelcome and unwarranted impost.

By deterring lifetime giving, it has had the effect of locking in assets, particularly the ownership of family businesses, often to the detriment of the businesses concerned.

Accordingly, I propose to abolish entirely the tax on lifetime gifts to individuals.

As with the old Estate Duty, there will be a tapered charge on gifts made within seven years of death and provisions to charge gifts made with reservation; and the regime for trusts, which is needed as a protection for the death charge, will be kept broadly unchanged.

The cost of abolishing the tax on lifetime giving will be £35m in 1986-87 and £55m in 1987-88.

In recognition of the radically changed nature of the tax I have decided to rename it the Inheritance Tax. My two previous Budgets abolished three unnecessary taxes: The National Insurance Surcharge, the Investment Income Surcharge, and Development Land Tax. The abolition of the tax on lifetime gifts adds a fourth.

I now turn to the taxation of savings and investment. In my 1984 Budget, I introduced a major reform of the taxation of savings and investment designed to improve the direction and quality of both. Today I propose to carry this reform further forward.

Personal pensions

The Social Security Bill now before Parliament proposes important and far-reaching changes in pension provision, notably by encouraging the growth of personal pensions. Those changes—to which the Government attaches the highest importance — have been warmly welcomed, both for the greater freedom they will give to existing pension scheme members and for the new scope they will offer to the millions of working people who are not in an occupational pension scheme.

In the light of these changes, I intend later this year to publish detailed proposals designed

> 'The *Lifetime Gifts Tax* which the Labour Government introduced in 1974, in the teeth of united Conservative opposition, is an unwelcome and unwarranted impost'

to give personal pensions the same favourable tax treatment as is currently enjoyed by retirement annuities. Publication of these proposals will enable there to be the widest possible consultation prior to legislation in next year's Finance Bill.

Meanwhile, I can assure the House that, as I made clear last year, I have no plans to change that favourable tax treatment. But I do need to deal with the growing problem of the rules governing pension fund surpluses.

The dramatic improvement in the financial climate compared with a decade ago, most notably as a result of the sharp fall in inflation, has seen a number of pension funds become heavily overfunded.

This presents a double problem, both aspects of which the Inland Revenue is at present having to deal with through the exercise of its discretionary powers.

In the first place, excessive surpluses, even if they arise unintentionally, represent the misuse of a tax privilege which was intended to assist the provision of pensions and for no other purpose. So the Inland Revenue requires from time to time that surpluses be diminished.

But, at the same time, the Revenue feels obliged to turn down many of the increasing number of requests from companies which, often for good reasons, wish to take refunds from their pension funds into the company itself.

The absence of clear rules on how surpluses should and may be dealt with, and the consequent reliance that has to be placed on the exercise by the Inland Revenue of its discretion, have created considerable uncertainty and have unnecessarily constrained trustees' freedom of action.

I therefore propose to replace these discretionary arrangements with clear and objective statutory provisions.

In future, the amount of any surplus in a fund will be determined for tax purposes in accordance with published guidelines, based on a secure funding method and prudent actuarial assumptions, as advised by the Government Actuary.

Where a surplus is 5 per cent or less of total liabilities no action will need to be taken. Where it is higher than that action will be required to eliminate the excess. It will be entirely a matter for the trustees and employers to decide whether the reduction is to be achieved by increasing benefits, or reducing contributions, or making a refund to the *company*.

If, and only if, they choose to make a refund, the employer will be liable to tax at a rate of 40 per cent of the amount refunded, so as broadly to recover the tax relief previously given.

The effect of these new arrangements is likely to be a yield of £20m in 1986-87 and £120m in 1987-88.

Next, Stamp Duty.

I have no change to propose in the Stamp Duty on houses and other property, which I reduced to 1 per cent, with a higher threshold, in my 1984 Budget.

But there is a formidable case this year for a further reduction in the rate of Stamp Duty on share transfers.

The City of London is the pre-eminent financial centre of Europe. The massive £6bn it contributes to our invisible earnings is but one measure of the resulting benefit to the British economy.

But competition in financial services nowadays is not continental, but global. The City Revolution now under way, due to culminate with the ending of fixed commissions—the so-called Big Bang—on October 27, is essential if London is to compete successfully against New York and Tokyo.

And if London cannot win a major share of the global securities market, its present world pre-eminence in other financial services will be threatened.

Successful competition depends on a number of factors, but one of the most important is the level of dealing costs.

The abolition of fixed commissions will certainly help. But with no tax at all on share transactions in New York and roughly ½ per cent in *Tokyo*, under the existing tax regime London will still be vulnerable.

I therefore propose to reduce Stamp Duty on share transactions from 1 per cent to ½ per cent as from the date of the Big Bang.

But I believe it is right that the full cost of this should be met from within the financial sector itself. Accordingly, I propose to bring into tax at the new ½ per cent rate a range of financial transactions which which are at present entirely free of Stamp Duty.

These include transactions in loan stock other than short bonds and gilt edged securities, transactions unwound within a single Stock Exchange account, letters of allotment, the purchase by a company of its own shares and takeovers and *mergers*.

There will also be a special rate of 5 per cent on the conversion of UK shares into ADRs and other forms of depositary receipt. Some of these changes, including the new ADR charge, will take effect immediately: others will be delayed until the Big Bang.

This further halving of the stamp duty on equities should enable London to compete successfully in the worldwide securities market. It will also provide a further fillip to wider share ownership in the UK.

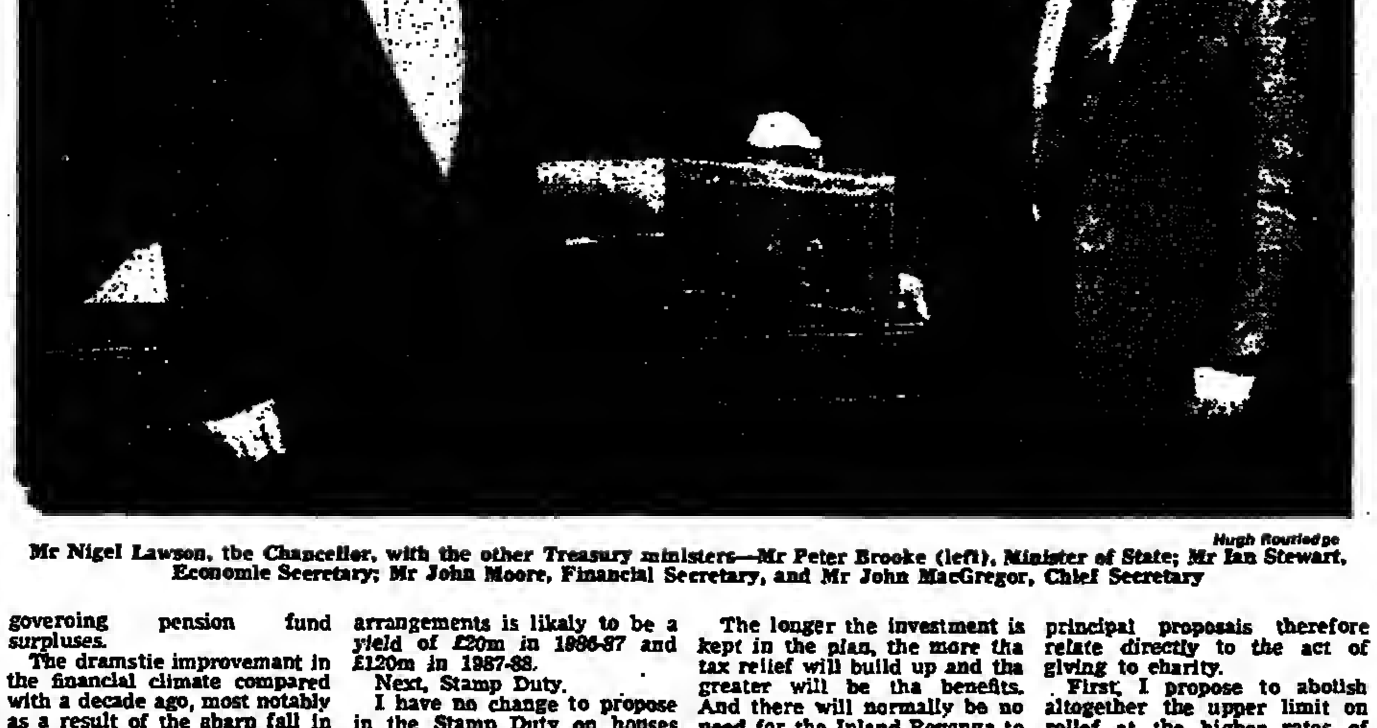
Just as we have made Britain a nation of home owners, it is the long-term ambition of this Government to make the British people a nation of share-owners, too; to create a popular capitalism, in which more and more men and women have a direct personal stake in British business and industry.

Both through the rapid growth of employee share schemes, and through the outstandingly successful privatisation programme, much progress has been made. But not enough.

Nor, I fear, will we ever achieve our goal so long as the tax system continues to discriminate so heavily in favour of institutional investment rather than direct share ownership.

Accordingly I propose to introduce a radical new scheme to encourage direct investment in UK equities. Starting next January, any adult will be able to invest up to £200 a month, or £2,400 a year, in shares. These will be held in a special account which I am calling a Personal Equity Plan.

So long as the investment is kept in the plan for a relatively *short minimum period*, of between one and two years, all reinvested dividends, and all capital gains no disposals, will be entirely free of tax.



Hugh Routledge

Mr Nigel Lawson, the Chancellor, with the other Treasury ministers—Mr Peter Brooke (left), Minister of State; Mr Ian Stewart, Economic Secretary; Mr John Moore, Financial Secretary, and Mr John MacGregor, Chief Secretary

The longer the investment is kept in the plan, the more the tax relief will build up and the greater will be the benefits. And there will normally be no need for the Inland Revenue to get involved at all.

Encouraging small savers

Although the scheme will be open to everyone, it is specially designed to encourage smaller savers, and particularly those who may never previously have invested in equities in their lives. So the plans will be simple and flexible to operate.

Anyone who is legally able to deal in securities will be eligible to register as a plan manager. But the investor himself will own the shares, and the rights that go with them, including voting rights. And it will be for the investor to choose whether to make the investment decisions himself or to give the plan manager authority to act on his behalf.

The cost of the scheme will be around £25m in 1987-88, but will build up in later years as more plans are taken out.

This is a substantial, innovative and exciting new scheme. I am confident that, over time, it will bring about a dramatic extension of share ownership in Britain.

Although wholly different in structure from the *Loi Monory* in France, I expect it to be every bit as successful in achieving its objective.

I am sure the whole House will welcome this far-reaching package of measures to reform the taxation *of savings* and investment.

I now turn to the tax treatment of charities and charitable giving. In almost every facet of the nation's affairs it becomes increasingly clear that private action is more effective than state action.

This is particularly well-illustrated by the success of charitable organisations up and down the land in the fields of famine relief, social welfare, medicine, education (including the universities), the arts and the heritage.

This Government has already done a great deal to assist charities both through the tax system and in other ways. I believe the time has come to take a further step forward.

The first question is whether any further fiscal relief should be given to the charities themselves, through relief from VAT, or to the act of giving.

In the light of representations from the Charities VAT Reform Group, I am prepared this year, exceptionally, to make a number of specific concessions on the VAT front.

I propose to relieve charities *from VAT on their non-classified* Press advertising; on medicinal products where they are engaged in the treatment or care of people or animals, or in medical research; on lifts and distress alarm systems for the handicapped; on refrigeration and video equipment for use in medical applications purchased by charities from donated funds; on all recording equipment for talking books and newspapers used by charities for the blind; and on welfare vehicles used by charities to transport the deaf, blind or mentally handicapped.

But in general I am convinced that the right way to help charities is not by relieving the charities themselves from VAT, but by encouraging the act of charitable giving.

I say this for two principal reasons. First, it is clearly better that the amount of tax relief is related to the amount of support a charity is able to attract, rather than to the value of goods and services it happens to purchase.

And, second, whereas a pound of VAT relief is worth precisely that, a pound of tax relief on giving is likely to generate more than a pound of income going to charity. My principal proposals therefore relate *directly* to *the* act of giving to charity.

First, I propose to abolish altogether the upper limit on relief at the higher rates of income tax on charitable covenants.

At the same time I propose to act to stop the abuse of the tax system by ensuring that tax relief goes only to money which is used for charitable purposes.

Next, companies.

It is widely believed that corporate giving to charity would be more generous than it is at present if tax relief did not depend on the company entering into a four-year covenant.

Accordingly, I propose to allow public companies to enjoy tax relief on one-off gifts to charity up to a maximum of 3 per cent of the company's annual dividend payment to its shareholders. There will, of course, continue to be no limit on the amount a company can covenant to charity.

Many charities have made clear to me their fear that to introduce a similar relief for one-off donations by individuals would weaken them by reducing the stability they enjoy as a result of the binding force of covenants. Instead, therefore, I propose to encourage individual giving to charity by a different means, that of tax relief for payroll giving.

From April 1987 it will be open to any employer to set up a scheme under which employees can have charitable donations of up to £100-a-year deducted from their pay, and get tax relief on them.

All in all, the proposals I have announced today add up to a very substantial package of assistance to charities and charitable giving. Their cost to the exchequer will depend on

> 'In almost very facet of the nation's affairs it becomes *increasingly* clear that private action is more effective than state action, as illustrated by the success of charitable organisations'

how generously companies and employees respond to this initiative. But my best estimate is that it could amount to as much as £70m in 1987-88.

This will be partly paid for by the measures to curb abuse, which may save some £20m a year. I would hope, too, that the additional charitable giving these concessions stimulate will be at least twice the amount of the extra tax relief given.

I now turn to the taxation of spending.

So *far* as the indirect taxes are concerned, the overriding question this year is how far I should recovered from the oil consumer the tax revenues I have lost from the oil producer, as a result of the massive fall in the oil price.

Since *November*, the price of petrol at the pump has fallen by anything up to 15 pence a gallon. But if the oil companies had passed on the full amount of the fall in the oil price to date, the price of petrol at the pump could have been 12 pence a gallon lower still. There is clearly scope, therefore, for a sizable increase in petrol tax this year.

I have concluded, however, that at the present time, while I must certainly maintain the real value of the revenue I get from the motorist, I will not increase it.

But I do believe it makes sense to look again, in the light of the radically changed circumstances, at the relative weight of petrol tax and Vehicle Excise Duty. Accordingly, I propose to increase the duty on petrol by an amount which, including VAT, would—if it were wholly passed on to the consumer—raise the price at the pump by 7½p a gallon. This is twopence more than is needed to keep pace with inflation, and that enables me to keep VED at last year's level of £100 for cars and light vans, leaving the overall burden on the motorist unchanged in real terms.

Moreover, given the very substantial increase in the oil companies' margins, there is clearly no need for the pump price of petrol to go up at all.

Indeed, it ought to fall further.

In the same way, I propose to increase the duty on derv by an amount which — if it were wholly passed on to the consumer, which, to repeat, it should certainly not be—would raise the price at the pump by 6½p including VAT.

This will enable me to avoid any general increase this year in the Vehicle Excise Duty on lorries, too.

Gas oil tax increased 1½p

So far as the other oil duties are concerned, I have one or two changes to make, not to the duty on heavy fuel oil, which will remain unchanged as it has done since 1980. But I propose to increase the very modest duty on gas oil by 1½p a gallon.

And I propose to abolish altogether the duties on aviation kerosene, or Avtur — which at present is taxed for domestic *flights* only—and on most lubricating oils. All these changes in duty will take effect from 6 pm this evening.

Finally, so far as oil products are concerned, I am anxious to do what I reasonably can to assist the introduction of lead-free petrol. The case for this on environmental grounds is clear.

I have therefore decided to create a duty differential in its favour to offset its higher production costs. My officials will be discussing with the oil companies how this can best be achieved in time for next year's Budget.

Next, tobacco. In the light of the representations I have received *on* health grounds, I have decided to increase the duty on cigarettes by appreciably more than is needed to keep pace with inflation.

I *therefore propose* an increase in the duty on cigarettes and hand-rolling tobacco by the equivalent, including VAT, of approximately 11p on a packet of 20 cigarettes.

This will take effect from midnight on Thursday. As last year, I propose no increase at all on the duties on cigars and pipe tobacco, which are more heavily taxed here than in most comparable countries.

Finally, drink. As the House will recall, I was obliged in 1984 to increase the duty on beer by slightly more than I would have wished as a consequence of the judgment against the UK in the European Court of Justice.

I now propose no increase at all in the duty on beer. Nor do I propose any increase in the duties on cider, table wine, sparkling wine, fortified wine or spirits. This last decision will, I hope, be particularly welcome in Scotland.

Next, VAT. I propose to stop the misuse of long stay relief for hotel accommodation, and make certain other minor changes. But I have no proposals for major changes in value added tax this year.

The changes I have announced in the excise duties will, all told, raise an extra £795m in 1986-87, the same amount as I would have raised had I simply increased all the excise duties in line with inflation.

NO 16—8/8½

The overall impact effect on the RPI, if all the increases were fully passed on, would be ½ per cent.

This has already been taken into account in the forecast I have given the House of 3½ per cent inflation by the end of the year.

Finally, I turn to income tax. In my Budget speech last year I undertook to issue a Green Paper on the reform of personal taxation. As the House is aware, I am publishing the Green Paper today.

It discusses a range of options which will in due course be opened up by the computerisation of PAYE, from the relationships between income tax and employees' national insurance *contributions* to the closer integration of the tax and benefit systems.

In particular, however, it outlines a possible reform of the present system of personal allowances. The responses to my predecessor's 1980 Green Paper revealed widespread dissatisfaction with the existing arrangements, but — inevitably — no clear consensus as to what should replace them.

Married women increasingly resent the fact that a wife's income is treated for tax purposes as that of her husband, depriving her of the independence and privacy she has a right to expect.

There is growing complaint, too, of the way in which, in a number of respects, the present system penalises marriage itself.

And it cannot be right that the tax system should come down hardest on a married couple just at the time when the wife stops work to start a family.

Yet that is what happens today.

The alternative system set out in the Green Paper, of independent taxation with allowances transferable between husband and wife, would remedy all these defects. To be acceptable, however, it would need to be accompanied by a substantial increase in the basic tax threshold.

The Government is committed to reducing the burden of income tax, and the proposal in the Green Paper suggests one way of doing that which would achieve a number of other worthwhile objectives—including the ability to take more people out of the unemployment and poverty traps for a given amount of tax relief than is possible under the present tax system.

Given the timetable of computerisation, none of this could in practice be implemented until the 1990s, but we need to start planning for the 1990s today. The Government will therefore carefully consider the responses to today's Green Paper before taking any decision on how to proceed.

Meanwhile, I have to set the tax rates and thresholds for the coming year. But first I have two minor proposals to announce, both of which I hope the House will welcome.

First, pensions paid by the West German and Austrian governments to victims of Nazi persecution are free of tax in both West Germany and Austria.

In this country, however, the tax relief on such pensions is set at 50 per cent. In future, I propose that pensions paid to victims of Nazi persecution should be free of tax altogether.

Second, the House will be aware that, as from next year, social security benefit upratings will be *moved* to April, to coincide with the tax year. This will enable them to be fully taken into account before PAYE codes are issued for 1987-88.

However, to bridge the gap between the November 1985 and April 1987 upratings my Right Honourable Friend the Secretary *of* State for Social Services proposes to have a special transitional uprating in July, the details of which he has recently announced.

But, as Honourable Members will know from their postbags, it could be confusing for many *old-age* pensioners and widows to undergo a special mid-year tax re-coding on account of the July uprating.

I have therefore decided that, *for* pensioners and widows, the benefit increases payable in July will be exempt from income tax in 1986-87.

The cost of this will be £15m.

Since we first took office in 1979, we have cut the basic rate of income tax from 33 per cent to 30 per cent and sharply reduced the penal higher rates we inherited from Labour.

We have increased the main tax thresholds by some 20 per cent more than inflation—and the greater part of that 20 per cent has been achieved during the present Parliament. It is a good record, but it is not good enough. The burden of income tax is still too great.

Nothing could be further from the truth than the claim that we have a choice between cutting tax and cutting unemployment. The two go hand in hand. It is no accident that the two most successful economies in the world, both overall and specifically in terms of job creation, *the US* and Japan, have the lowest level of tax as a proportion of GDP.

Reductions in taxation motivate new businesses and improve incentives at work. They are a principal engine of the enterprise culture, on which our future prosperity and employment opportunities depend.

The case for higher tax thresholds is well understood. In my two previous Budgets, I have raised the married man's allowance to its highest level in real terms since the war, and higher as a proportion of average earnings than in either Germany or the US.

But we should not overlook the need for reductions in the basic rate of tax, too. The basic rate is the starting rate of tax. And it is the crucially important marginal rate of tax for some 95 per cent of all employees and 90 per cent of all self-employed and unincorporated businesses.

Clearly, given the massive fall in oil revenues, this is not a year for substantial reductions in tax of any kind.

But provided the economy continues to grow as it has been and provided we continue to maintain firm control of public expenditure, the scope should be there in the years ahead.

VAT threshold to be raised

Meanwhile, I propose for 1986-87 to raise all the main thresholds and allowances by the statutory indexation figure of 5.7 per cent, rounded up.

The single person's allowance will therefore rise by £130 to £2,335 and the married man's allowance by £200 to £3,655.

Similarly, the single age allowance will rise by £160 to £2,850 and the married age allowance by £250 to £4,505. The age allowance income limit becomes £9,400.

I propose to raise all the higher rate thresholds by

Continued on next page

Roger Taylor

Chancellor Lawson, accompanied by his wife Therese, leaves No 11 Downing Street for the House

Basic tax rate cut

Continued from previous page

exactly £1,000. This is fully in line with statutory indexation for the first (40 per cent) higher rate, but less than half statutory indexation for the top (60 per cent) rate.

Given the need for caution in the light of current circumstances, I do not have scope this year for a reduction in the basic rate of income tax, beyond one penny in the pound.

But this reduction from 30 per cent to 29 per cent still represents the first cut in the basic rate of income tax since my predecessor took it down from 33 per cent to 30 per cent in 1979.

So long as this Government remains in office, it will not be the last. There will, of course, be a consequential reduction in the rate of Advance Corporation Tax.

And I also propose a corresponding cut in the small companies' rate of Corporation Tax from 30 per cent to 29 per cent.

The combined effect of the various income tax changes I have just announced is to concentrate the benefit, modest as I readily concede it to be, not on the rich but on the great majority of ordinary taxpayers.

As a result of the adjustments I have made to the higher rate thresholds, the gain for those at the top of the income scale is more or less confined to what they would have received under simple indexation alone.

By contrast, the married man on average earnings will be some £2.60 a week better off, an improvement of £1.45 a week over simple indexation alone.

The income tax changes I have announced today will take effect under PAYE on the first pay day after May 17. They will cost £935m in 1986-87, over and above the cost of statutory indexation.

Seven years ago, when my predecessor cut the basic rate of income tax from 33 per cent to 30 per cent, he added: "Our long-term aim should surely be to reduce the basic rate of income tax to no more than 25 per cent."

I share that aim.

In this Budget, Mr Deputy Speaker, I have reaffirmed the prudent policies that have brought us three successive years of steady growth with low inflation, and the prospect of a fourth ahead of us.

I have described how we can take in our stride the dramatic collapse in the oil price, and benefit from its consequences.

In collaboration with my Rt Hon and Noble Friend, the Secretary of State for Employment, I have announced a further substantial range of measures to help the unemployed.

I have proposed a radical and far-reaching new scheme for tax-free investment in equities, so that we may truly become a share-owning democracy, and abolished a fourth tax.

I have announced the most substantial package of assistance to charitable giving ever and cut the basic rate of income tax.

Building as it does on the achievements of the recent past, this Budget is a safeguard for the present and a springboard for the future.

I commend it to the House.

The Chancellor rose at 3.35 pm and sat down at 4.50 pm, having spoken for 1 hr 15 mins.

Kinnock condemns 'juggling with taxes'

BY IVOR OWEN

MR NEIL KINNOCK, the Labour leader, described the Budget as an "exercise in tax *juggling*" which was irrelevant to the main problems of the economy.

He accused Mr Nigel Lawson, the Chancellor of the Exchequer, of again failing to take the action needed to restore Britain's manufacturing base—a task made all the more urgent by the rapid decline in revenue from North Sea oil.

Mr Kinnock taunted the Prime Minister with the fact that her continued insistence that there was no alternative to the economic policy being pursued by the Government was being increasingly challenged by members of her own Cabinet as well as by Tory backbenchers.

He declared: "This is a fudge-it Budget from a Government that for seven years has worn away the industrial base of the nation and wasted huge amounts of wealth in a rake's progress paid for with oil revenues."

Mr Kinnock clearly surprised many Conservative MPs by claiming that the Government had borrowed more than any of its predecessors, and was not deterred by their shouts that the alternative policies advocated by Labour involved more Government spending.

He told his critics: "There is only one thing more expensive for this country — that is not spending, and paying the bills of idleness."

Mr Kinnock emphasised that the need for a different approach had been recognised by the CBI, TUC, the Commons Employment Committee, the Lords select committee on overseas trade, and others.

All of them, he said, had insisted that there must be alternatives to the Government's policy.

While there were wide differences of view about the scale and pace of any alternative measures, there was general agreement on the need for major increases in expenditure on job creating programmes in the public sector and for measures to develop and redevelop modern manufacturing industry to provide a basis for future earnings for the nation.

The Labour leader scoffed at the rejoicing on the Tory benches over the 1p reduction in the basic rate of income tax and told them: "You've only got to reduce it by another 5p in order to get the tax burden down to the level it was in 1979."

The Chancellor's approach to those in the City who had benefited "stupendously" from the variety of measures introduced by the Government had been typically faint-hearted.

Mr Kinnock insisted: "These people on very high salaries and very high returns should be made to pay their way in our society."

Sir Kenneth Lewis (C, Stamford and Spalding) warned that the "gravest issue facing the Government at the next general election would not be the level of the basic rate of income tax but its success in reducing unemployment.

He suggested that a fall in the number of unemployed at least to 3m would be required.

Mr Neil Kinnock: This is a fudge-it Budget

As this was going to take "quite a bit of stimulus," it was disappointing that the Chancellor had not felt able to do more at the present time.

Sir Kenneth argued that, in a few months, people would see little difference between the basic rate of income tax of 29p and that of 30p and said the question which needed to be asked was how the pump could be primed so that people were removed from unemployment to tackle the great deal of work that needed to be done.

Mr Richard Wainwright (Lib, Colne Valley) accused the Chancellor of displaying an "almost contemptuous neglect" of the unemployed.

Not only was it not use to them to say the basic rate of income tax had been reduced, but he had also had the cheek to tell them that they could invest up to £200 a month in a personal investment plan.

Business leaders express delight

By Richard Evans

INDUSTRY AND business leaders gave an enthusiastic welcomo to the Budget, which they regarded as a skilful and innovative blend of measures to benefit the economy.

But reaction was much more muted in Scotland, Wales and the North of England, largely because of the perceived lack of impact on jobs. The TUC described it as "a pygmy Budget when we are facing giant problems."

Sir Terence Beckett, director general of the Confederation of British Industry, said the revenue raising proposals had *skilfully avoided* increasing inflation and the overall shape of the Budget should enable interest rates to be brought down.

CBI members were clear that the priorities in the Budget should be to help the unemployed. "We therefore welcome the concern the Chancellor has shown. The programme he has announced for tho long-term unemployed *will be a practical help.*"

The CBI also welcomed the "imaginative" extension of wider share ownership, the reduction in stamp duty on share dealings, the "real improvoments" in the treatment of smaller companies, and the nbolition of the lifotime gift tax.

The Institute of Directors was euphoric. Hailing the Bodget as one of the "most innovative and hreathtaking" for n long time, tha IoD predicted that the Chancellor had regained the confidonce of the husiness world.

Howevor, Dr John Constable, director general of the British Instituto of Management, said the Bndget was "over cautious and unimaginative."

The Association of British Chambers of Commerce said that if a rednction in interest rates did not matorialise rapidly, then the Budget would turn sour. But a warm welcomo was given to tha measures to help small companies and to the abolition of the lifetime gifts tax.

Mr Tony McBurnie, director general of the Institute of Marketing, said: "With further interest rate rednctions in the offing, the opportunities now available to UK companies in the international marketplace are bettor than they have been for decades."

Mr Norman Willis, general secretary of the TUC, said he wanted a Bndget that would help Britain compete in world markets and which would protect the weak and less-well-off.

Car tax unchanged but buses and taxis up 5%

THE Transport Department issued post-Budget statements on Vehicle Excise Duty and trade licensing of vehicles. The first said:

In his Budget statement this afternoon, the Chancellor of the Exchequer announced that most VED rates wonld be frozen for 1986-87. This means no increase in the rates for cars and light vans, motorcycles, or lorries (apart from farmers' goods vehicles, which are going up in lino with the three year phasing announced last year).

All lorry groups will, however, continue to cover their share of the costs of huilding, maintaining and policing the roads. When increases in DERV duty are taken into account, it is expected that lorries' motoring tax will exceed their road costs by some £305m.

VED rates for the hackney class (covering buses, coaches, and taxis) increase hy 5 per cent. An increase is appropriate since hnses and coaches do not pay their full share of road costs. The new rates have heen set at about the level of inflation.

VED rates for farmers' vehicles nre increased hy varying amounts. This ia the second of three annual steps which started last year to reduce concessions and move towards rates which are hroadly proportionate to the mileage which farmers' vehicles do on the roads hy comparison with the nverage lorry.

Some specimen VED rates are set out in the attached table. Where there are changes, these will come into effect for licences taken out after March 18 1986.

Commenting on the Budget proposals, Mr Nicholas Ridley, Transport Secretary, said: "I think the Chancellor's proposals on vehicle excise duty will he hroadly welcomed hy industry and commerce. The freeze in lorry rates will provide some offset to increases in DERV duty while maintaining the principle, which operated fully for the first time last year, that every class of lorry should pay its way.

The Transport Department's trade licensing scheme statement said: This year's Finance Bill will include a number of changes designed to improve the vehicle trade licensing system with effect from January 1 next year.

Mr Nicholas Ridley, Transport Secretary, welcomed the proposals. "These changes are the first real improvements to the trade licensing system for about 20 years," he said. "They will help to bring trada licensing into line with current operational needs and make procedures more straightforward and easler to understand.

"The new probationary trade licence will help those who are starting up in motor businesses for the first time. At present, trade licences are normally only issued to businesses nlready in operation and It can he difficult for new entrants to qualify for them. The introduction of the probationary licence will allow the department a good deal more flexihility in considering applications for trade licences.

The trade licensing facility is widely recognised by the motor trade as heing a valuabla concession. Recent increases in rates have, however, lagged far behind thosa for vehicles In normal use. To regularise the position and take account of the improvements mentioned above, the trade licensing rate will in future be linked to that for private cars (the PLG rate). The iocrease will be phased in.

From January 1 1987 the proposed rates are:

- Trade licence — 12 months £70; 6 months £38.50.
- Motor cycle trade licence — 12 months £14; 6 months £7.70.

Changes in company cars tax

THE INLAND REVENUE issued the following post-Budget statement: The Chancellor proposes in his Budget some changes to the scale charges for taxing cars and car fuel henefits of company cars provided for directors and "higher paid" employees.

From April 6 1987, the present 1300cc and 1800cc engine-size breakpoints in both these scales will he changed, on a broadly revenue neutral hasis, to 1400cc and 2000cc respect*ively* to align them with the proposed European Community Directive on car exhaust emissions. The restructured scale charges for car benefits, hut not those for car fuel henefits, will then be increased by 10 per cent for 1987-88. The scale charges for more expensive cars and for cars without an engine rated in cc's will also be increased by 10 per cent, hut the market-value breakpoints for these cars are to remain unchanged.

The Chancellor also proposes that, from the same date, the car fuel henefit scale shonld be used hoth for income tax purposes and to assess the VAT due on petrol used for private journeys by registered traders and their employees.

CAR BENEFIT: CARS WITH ORIGINAL MARKET VALUE UP TO £19,250 AND HAVING A CYLINDER CAPACITY

Cylinder Capacity of Car in Cubic Centimetres	Scale Charges, Age of Car at End of Relevant Year of Assessment: Under 4 Years	4 Years or More	Tax Payable for 1987-88, assuming basic-rate taxpayer: Under 4 Years	4 Years or More
1400 cc (1300 cc) or less	525 (450)	350 (300)	£152.25	£101.50
1401 cc (1301 cc) 2000 cc (1300 cc)	700 (575)	470 (380)	£203	£136.30
More than 2000 cc (1800 cc)	1100 (900)	725 (600)	£319	£210.25

CAR BENEFIT: CARS WITH ORIGINAL MARKET VALUE OF £19,250 OR MORE

Original Market Value of Car	SCALE CHARGES, Age of Car at End of Relevant Year of Assessment: Under 4 Years	4 years or More	Tax payable for 1987/88, assuming basic rate taxpayer, Age of Car at End of Relevant Year of Assessment: Under 4 Years	4 years or More
£19,250 or more but not more than £29,000	1450 (1320)	970 (875)	£420.50	£281.30
More than £29,000	2300 (2100)	1530 (1400)	£667	£443.70

These scale charges and the proposed changes affect the tax liability of directors, and of employees earning at a rate of £8,500 a year or more (including the value of any benefits etc), who are provided with a company car that is also available for private use.

The scale charges ("taxable cash equivalents" in the legislation) and breakpoints in respect of company cars and fuel used for private motoring are contained in Finance Act 1976, and may be varied by Treasury Order. Orders covering these proposed changes for 1987-88 will he laid before Parliament shortly.

THE BUDGET: Details

Dollar price casts uncertainty on N Sea revenues

AFTER the Chancellor's speech the Treasury issued the following statement cn govornment revenue from the North Sea.

THE FINANCIAL Statement and Budget Report (FSBR) contains projectiona of Government revenues from North Sea oil and gas ovor the period to 1989-90.

Such projections are subject to n number of major uncertainties, the main one at present being the dollar oil price. Tho revenue projections in the FSBR assume an averago North Sea (and world) dollar oil price of $15 per harrel for the rest of 1986 and in 1987. Thereafter, average North Sea (and world) dollar oil prices are assumed to rise hroadly in line with inflation. These assumptions about oil prices—together with those for the $-£ exchange rate, North Sea oil production and company expeoditures—*imply a fall in* North Sea oil revenues from £11½bn in 1985-86 to £6bn in 1986-87, and to around £4hn a year thereafter.

In 1985-86 revenues at £11½bn are expected to be about £2bn lower than was projected in the 1985 FSBR, hut the same as in the 1985 Autumn Statement. The larga fall in oil prices since November 1985 came too late in the financial yenr to have much effect on 1985-86 revenues. In 1986-87, revennes are projected to be £5½bn lower than in tbe 1985 FSBR reflecting the assumption of much lower dollar oil prices and a higher dollar/sterling exchange rate only partly offset by a higher foracast of North Sea production.

This note describes the current projection of North Sea revenues and compares it with forecasts published by other forecasting bodies. The substantial revisions now made to tha Traasury projections illustrate the very wide margins of orror to which such projections are auhject.

OIL PRODUCTION FORECASTS*

m tonnes

Forecasts made in	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1976	55-70	75-95	95-115										
1977	60-70	80-95	90-110	100-120									
1978	55-65	80-95	90-110	100-120	105-125								
1979		70-80	85-105	95-115	115-140	115-140							
1980			80-85	85-105	90-120	95-130	95-135						
1981				80-95	85-110	85-115	90-120						
1982					90-105	90-115	95-125	95-130					
1983						95-115	95-125	95-125	85-120				
1984							110-130	110-130	100-125	85-115	80-115		
1985								120-135	110-130	95-125	85-120	80-115	
1986									120-135	110-130	100-125	90-120	85-115
Outturn	54.0	77.9	80.5	89.4	103.2	114.7	125.9	127.4	—	—	—	—	—

* Including natural gas liquids and onshore production.

Revenue projections

The accompanying table shows the latest projection of Government revenues from the North Sea for the period to 1989-90. It also compares them with those made at the time of the 1984 and 1985 Budgets, and the 1985 Autumn Statement.

Oil prices

The price of North Sea crude averaged ahont $27½ n harrel in 1985, much as assumed at Budget time and about $2 helow the average price in 1984. Tha average price in sterling of about £21 a barrel was, however, significantly below the level assumed at Budget time reflecting a higher than assumed $/£ exchange rnte. Within the year, dollar prices reached a low of under $26 a barrel in June and a high of over $30 a barrel in November. Prices dropped hack in December and fell very sharply in the first quarter of 1986.

In real terms, world oil prices in the first half of March were a little below the levels prevailing after the first oil price ahock in 1973 (Chart 3.1 in the FSBR ahows real oil prices since 1970). The oil market developments underlying thia fall are described in paragraphs 3.10 to 3.12 of the FSBR.

Royalty and PRT receipts in 1986-87 depend mainly on oil pricea in 1986 calendar year while corporntion tax receipts depend on prices in earlier years. The projections assume a dollar oil price of $15 per harrel for the rest of 1986 calendar year. The dollar/sterling exchange rate ia not assumed to change much. These assumptions imply an average sterling price in 1986 almost *half* that in 1985. Prices are assumed to remaln at $15 per harrel in 1987 and then to be hroadly unchanged in real terms. For the rest of 1986, and for the period beyond, prlces in real terms arc assumed to be rather below the level between 1974 and 1979.

Prodnction

Productioo io 1985 was 127.4m tonnes, a similar level to that In 1984, and at the centre of the production range for 1985 published in the 1985 Brown Book.

The levels of current and capital spending (including exploration expenditure) are important determinants of the size of tax receipts because they are deductible, In part, for royalties and, in full, for petroleum revenue tax (PRT) and are allowed against corporation tax.

Capital expenditure fell somewhat In 1985 due to the phasing of expenditure on fields under development. It is expected to recover in 1986 to a level similar to that in 1984, reflecting the development of new fields approved in 1985 and early 1986. Thereafter, the outlook is extremely uncertain, depending on company price expectations often looking very far ahead. The projections assume some reduction in exploration and capital expenditure after 1986.

Sensitivity of North Sea revenne projections: The outturn for North Sea revenues depends crucially on sterling oil prices, and also on North Sea production and deductible expenditures. Sterling oil prices depend on dollar oil prices and the dollar/sterling exchange rate.

The effects of a change in oil, prices on revenues will a lso depeod on the exteot to which they affect company expectations of future oil prices and hence company investment decisions. Ignoring such effects and assuming other things—iocluding the exchange rate—are unchanged, it is estimated that $1 a harrel difference In oil prices In 1986 would change North Sea revenues hy £400m io 1986-87 and by £500m in a full year. The full-year effect is greater than the first-year effect because the change in corporation tax would only be reflected in receipts in the second year.

A 1 per cent difference in the $-£ exchange rate would affect revenues hy £65m in 1986-87 and £75m in a full year—again assuming no effects on the volume of company expenditures but allowing approximately for the effect on the sterling value of companies' dollar expenditures.

The effects on revenues of different levels of North Sea production will depend crucially on where the change in production occurs because the tax position of indlvidual fields ia very different. Assuming that the different production is spraad evenly acrosa fields, and ignoring possible second round effects on company expenditures and tha exchange rate, a change of 1m tonnes in oil production in 1986 would alter North Sea revenues hy £55m in 1986-87 and hy £60m in a full year.

Comparison with outside forecasts: The North Sen revenue projection in the FSBR for 1986-87 is close to the average of a sample of seven recently published outside forecasts, although the underlying price assumptioo is over $2 lower than that implied by the outside average. The Treasury's projection for productioo is higher than the outside average in 1986 but not hy a sufficient amount to offset the difference arising from the lower dollar oil price assumption. The remaining differenca between the FSBR projection, and outside forecasts may reflect, among other factors, different projections for company expenditures, as well as different assumed distribution of production between fields attracting different tax treatments, and different estimates of corporation tax liabilities.

TOTAL NORTH SEA OIL AND GAS REVENUES

£bn, current prices

	FSBR 1984	FSBR 1985	Autumn Statement 1985	FSBR 1986
1983-84	9	9	9	9
1984-85	10	12	12	12
1985-86	9½	13½	11½	11½
1986-87	9½	11½	—	6
1987-88	9½	9½	—	4
1988-89	9	8½	—	4
1989-90			—	4

Total revenues from the North Sea consist of royalties, petroleum revenue tax (including advance payments) and corporation tax before advance corporation tax (ACT) set-off. Liability to corporation tax arising in respect of North Sea production may be satisfied by setting off ACT arising on dividends paid in previous periods in respect of both onshore and offshore activities. Dividends and ACT associated with North Sea activities alone cannot be identified.

COMPOSITION OF NORTH SEA REVENUES

£bn, current prices

	Royalties	PRT	Corporation tax	Total
1985-86	2.1 (2.5)	6.4 (8.2)	3.0 (2.8)	11.5 (13.5)
1986-87	1.0	2.4	2.7	6.1

Technical changes in oil taxation

Onshore/offshore boundary more clearly defined

THE CHANCELLOR'S aim this year, as last, has been to preserve stability in the oil taxation regime. Accordingly, no major changes are being made, although the Chancellor proposes a number of technical changes in *his Budget:*

a—To ensure that the onshore/offshore boundary for the purposes of PRT coincides with the UK coastline;

b—To improva the rules for the valuation of certain light gases sold on a long-term basis;

c—To clarify the chargeable field for tariff and disposal receipts in cases of fields in common ownership with shared use of assets, which received their development consents on the same day;

d—To remedy a defect in the definition of "associated company" in the Oil Taxation Act 1975 ring fence corporation tax provisions.

DETAILS OF PROPOSED CHANGES

a—Onshore / Offshore Boundary for PRT Purposes: 1. Until now, the onshore / offshore boundary for PRT purposes has been the baseline of the territorial sea. In certain areas, *particularly* to the west of Scotland, this runs nt some distance from the coastline. The effect is that areas of sea to the landward side of the baseline are treated for PRT purposes as "onshore." This technical anomaly will be corrected, so that the boundary will now follow more closely tha coastline of the UK.

b—PRT Valuation of Light Gases: 2. When gas or oil is disposed of other than by way of a sale at arm's length, for example, when It is transferred from the producing company to an associated company, PRT is charged on the market value of that gas or oil. But the normal valuation rules in Schedule 3, paragraph 2, Oil Taxation Act 1975 are not satisfactory for ascertaining tha market value of light gases such as methane ordinarily sold under long-term contracts. Accordingly, an alternative basia for valuing these light gases will be provided.

This will enable PRT valuatious to mirror the terms under which comparable gas is actually sold in the open market.

c Fields in Common Ownership —Shared Use of Assets: 3—The Oil Taxation Act 1983 imposed a charge to PRT on certain tariff and disposal receipts. Section 8 (3) (c), OTA 1983, provides that where expenditure on e qualifying asset has been allowed in more than one oilfield (ie, it has been apportioned between fields in common ownership), tariff and disposal receipts are chargeable in the field which recelved its development consent first. In order to prevent difficunltiea in allocating this charge where fields have been given their development consent on tha same day, as is usual for cluster developments, it is proposed to introduce an additional rule to identify the chargeable field. The chargeable field for a participator will be that in which he is likely to make the greatest use of the asset. A similar amendment will be made to Paragraph 6 of Schedule 1 OTA 1983, in relation to the attribntion of allowahle expenditure.

d Definition of "associated *company*" for Ring Fence Provisions: 4—Parft II of the Oil Taxation Act 1975 introduced a ring fenca to prevent corporation tax on profits from oll-extraction activities being croded by losses or other charges outside the ring fence. A minor, technical amendment to the definition of "associated company" io S.19 (3), Oil Taxation Act 1975, is proposed to remedy a defect in the present definition.

OTHER ISSUES

Incremental Investment in Existing Fields: 5—Although he is proposing no special reliefs this year, the Chancellor has made clear that he regards the issue of the tax treatment of addition investment in existing fields ("incremental" investment) as still open. It Is the Government's intention to keep this whole question under careful review

Mines and Oil Wells Capital Allowances: 6—The Chancellor has confirmed that the proposals for Mines and Oil Wells Allowances will be implemented, hroadly on the lines of the proposals in the consultative document published last July.

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THE BUDGET: Details

Income tax rate cut and changes for charities, BES and CTT

THE financial statement and Budget Report published yesterday announced the following proposed tax changes:

The main tax changes proposed in the Budget are summarised below. A full list of changes is given in the accompanying table.

The basic rate of income tax will be reduced to 29 per cent.

Income tax personal allowances will be increased in line with the statutory indexation provisions (based on the increase of 5.7 per cent in the RPI in the year to December 1985). This will mean that:

● The single person's and wife's earned income allowances will rise from £2,205 to £2,335.

● The married allowance will rise from £3,455 to £3,655.

● The age allowance will rise from 2,690 to £2,850 (single) and from £4,255 to £4,505 (married) and the income limit from £8,800 to £9,400.

● The additional personal allowance and widow's bereavement allowance will rise from £1,250 to £1,320.

The uprating date for social security benefits is being changed from November to April. As part of the transitional arrangements there will be an additional interim uprating in July 1986. Exceptionally, the Government has decided to exempt from income tax the amount of the increase payable in 1986-87 on retirement pensions and linked long term benefits.

UK practice on the taxation of visiting entertainers and sportsmen will be brought into line with that in most other OECD countries by the introduction of deduction of tax at source, and other measures. The new arrangements will not come into effect until 1987-88.

The specific duties on cigarettes and hand rolling tobacco will rise by about 13½ per cent, equivalent to just over 11p on a packet of 20 cigarettes. Those on pipe tobacco and cigars will remain unchanged.

Duties on alcoholic drinks will remain unchanged.

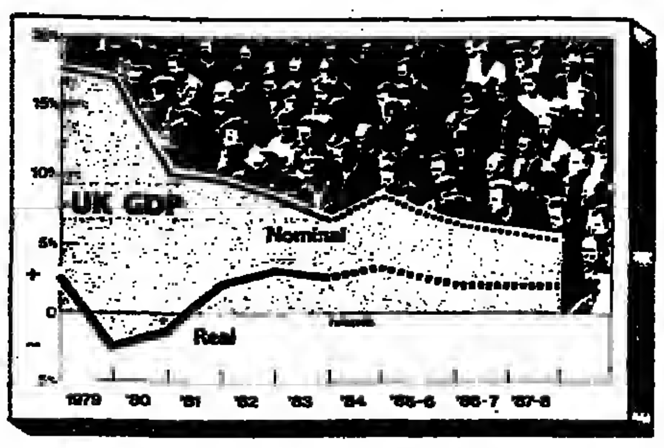
Duties on road fuels will go up by a little more than 8 per cent or the equivalent of approximately 7¾p on a gallon of petrol and 6½p on a gallon of derv.

The duty on cars, light vans, motor cycles and most lorries will remain unchanged. The duty rates on buses, coaches and taxis will rise by 5 per cent.

The Business Expansion Scheme (BES) was due to come to an end on April 1 1987. It is proposed to continue it indefinitely and to exempt new BES shares from capital gains tax on first sale. Certain low risk activities including those with high asset-backing are to be excluded. Certain forms of chartering of UK-registered ships are to be included.

The lifetime capital transfer tax charge is to be abolished for all gifts between individuals made on or after Budget day. There will, however, remain a tax on transfers made on death. Gifts made within seven years of death will be charged but with taper relief. To reflect its new structure, the tax will be known as the inheritance tax.

Under the new arrangements, there will continue to be a charge on transfers involving trusts and companies. Provision will be made to charge gifts in relation to which the benefit. The exempt amount and rate bands of the tax will donor may continue to enjoy a be increased from Budget day.



CAPITAL TRANSFER TAX

Rate on death per cent	Bands of chargeable value £000
0	0-71
30	71-95
35	95-129
40	129-164
45	164-206
50	206-257
55	257-317
60	Over 317

INCOME TAX THRESHOLDS

Tax rate per cent	£
29	0-17,200
40	17,201-20,200
45	20,201-25,400
50	25,401-33,300
55	33,301-41,200
60	over 41,200

A new scheme, known as Personal Equity Plans, will be introduced to encourage individuals to invest directly in equities. Shares held in such plans will be free of any tax on both capital gains and reinvested dividend income. Investment of up to £2,400 will be permitted each year and the shares will have to be held for a minimum period of not more than two years.

The rate of stamp duty on share transactions is to be reduced in the autumn from 1 per cent to ½ per cent. The scope of the duty will be widened to cover the following transactions (currently exempt):

● Takeovers including mergers (but excluding company reconstruction): from March 19.

● Certain loan stock: from March 19.

● Letters of allotment partly from March 19 and partly from the autumn;

● Intra account dealing: from the autumn;

● Company purchase of own shares: from the autumn.

A 5 per cent duty is being imposed where shares are converted into depositary receipts, from March 19.

The following measures will be taken to encourage further the spread of approved employee share schemes:

● the extension of the present tax reliefs to shares which must be disposed of when the employment ends;

● changes to enable employee controlled companies and worker co-operatives more easily to take advantage of existing schemes;

● a more liberal regime for savings-related share options.

Pension fund surpluses: Tha present rules relating to pension fund surpluses will be clarified and revised as follows:

● Pension funds' assets and liabilities will be valued, for tax purposes only, on standard assumptions advised by the Government Actuary.

● Where such valuation shows an actuarial surplus of assets over liabilities of more than 5 per cent, the trustees shall be required to reduce it to not more than 5 per cent by (i) an increase in pension benefits (within existing limits), or (ii) a contribution reduction or holiday by either employer or employee, or (iii) a refund to the employer, or (iv) by any combination of these measures, the choice of method being for the trustees to decide.

● Where a refund is made to the employer, it will be subject to tax in the employer's hands at a rate of 40 per cent.

● No refund will be permitted which would reduce the surplus to less than 5 per cent.

Charitable giving: Four new types of tax relief will be introduced:

● Companies, other than close companies, will for the first time be able to claim tax relief for single gifts to charity. The relief will be on single gifts up to a maximum equal to 3 per cent of the ordinary dividends paid by the company in the accounting period;

● The present annual limit of £10,000 on the amount of charitable giving through deeds of covenant for which an individual taxpayer may claim higher rate relief will be abolished — restrictions will remain only where the measures against abuse apply;

● There will be a new scheme from April 1987 to encourage individuals to make donations to charity through deductions from their wages and salaries. Employees whose employers participate in the scheme will be able to get tax relief on donations of up to £100 a year;

● VAT relief will be available on distress alarms and lifts for the handicapped and their charities, non-classified press advertising by charities, medicinal products supplied to charities, video and refrigeration equipment used in medical applications by certain eligible bodies including charities, welfare vehicles used by such bodies to transport the deaf, blind and mentally handicapped, and recording equipment used by charities for the blind.

Measures are also to be taken to prevent abuse of the tax reliefs for charities.

Business taxation: The small companies' rate of corporation tax will be reduced to 29 per cent. As a consequence of the reduction in the basic rate of income tax, the rate of advance corporation tax (ACT) will be reduced to 29/71sts of the distribution. To reinforce this link between the rates, the Finance Bill will contain a provision for the ACT rate to be adjusted automatically in line with future changes in the basic rate of income tax.

The final stage in the business tax reforms introduced in 1984 will take effect on April 1 1986 with the reduction in the main corporation tax rate to 35 per cent and (with a few mainly transitional exceptions) the full implementation of this new system of capital allowances.

These reforms will be completed by updating the mines and oil well capital allowance code and adapting the system of allowances for agricultural buildings.

In order to provide a full measure of tax depreciation for agricultural buildings and works with a short life, taxpayers may choose to take balancing adjustments on their disposal or destruction.

Oil taxation: Except for the updating of the mines and oil wells capital allowances code, no other changes are being proposed to oil taxation apart from technical changes to remove some anomalies.

Capital gains tax: The capital gains tax annual exempt amount is to be increased in accordance with the statutory indexation provisions from £5,900 to £6,300 in the case of individuals, and from £2,950 to £3,150 in the case of most trusts.

Car and car fuel benefits: The scales which determine the taxable cash equivalents of car and car fuel benefits in respect of company cars provided for directors, and for employees earning £8,500 a year or more, are to be changed from April 6 1987.

The present (1,300 cc and 1,800 cc) engine-size break points are to be aligned, on a revenue-neutral basis, with those (1,400 cc and 2,000 cc) in the proposed European Community Directive on car exhaust emissions.

The resulting scale charges for car benefits (but not car fuel benefits) will be increased by 10 per cent for 1987-88. From April 1987 the car fuel benefit scale is to be used both for income tax purposes and to assess the VAT chargeable on fuel used for private journeys in business cars.

Value added tax: From March 19 1986 the registration limits will become £20,500 per annum and £7,000 per quarter.

DIRECT EFFECTS OF CHANGES IN TAXATION AND NATIONAL INSURANCE

£m

	Estimated effect on receipts in 1986-87: Changes from an indexed base	Changes from a non-indexed base	1987-88 Changes from a non-indexed base
INLAND REVENUE			
Income tax			
1 Reduction of 1p in basic rate	−830	−830	−1,245
2 Increase in single allowance of £130 and married allowance of £200	—	−895	−1,130
3 Increase in additional personal allowance and widow's bereavement allowance of £70	—	−10	−10
4 Increase in age allowance of £160 (single) and £250 (married) and income limit of £600	—	−115	−145
5 Increase in basic rate limit of £1,000 to £17,200	—	−70	−115
6 Changes to further higher rate thresholds	+15	−35	−70
7 Abolition of higher rate relief limit for charitable covenants	*	*	−5
8 Relief for charitable donations through payroll deduction schemes	—	—	−20
9 Changes in rules for tax treatment of visiting entertainers and sportsmen	—	—	+75
10 Fringe benefits—car and car fuel scales	—	—	+15
11 Changes to relief for overseas travel expenses	−10	−10	−5
12 Exemption for 1986-87 of July increase in retirement pensions and linked long term benefits	−15	−15	*
13 Changes in taxation of employee share acquisitions	*	*	*
14 Use of restricted shares in approved employee share schemes	*	*	*
15 Use of shares providing employee control in approved employee share schemes	*	*	*
16 Worker co-operatives' use of redeemable shares in approved profit-sharing schemes	*	*	*
17 Exercise of options granted under approved savings-related share option schemes	*	*	*
18 Change in basis of assessment of enterprise allowance	*	*	−5
19 Exemption of pensions paid to victims of Nazi persecution	*	*	*
Income tax and capital gains tax			
20 Tax relief for Personal Equity Plans	*	*	−25
21 Business Expansion Scheme—continuation beyond April 1987 and changes in coverage	*	*	+10
Income tax and corporation tax			
22 Rules for pension funds surpluses	+20	+20	+120
23 Mines and oil wells capital allowances	*	*	−45
24 Changes in agricultural buildings allowance rules	*	*	*
25 Changes in capital allowance rules for leased assets	*	*	*
36 VAT penalties, interest, surcharges and repayment supplement	*	*	*
Income tax, corporation tax and capital gains tax			
27 Charities: anti-avoidance measures	*	*	+20
28 Limiting scope of anti-bondwashing provisions	*	*	*
29 Amendments to accrued income scheme	*	*	*
Income tax, corporation tax, capital gains tax and capital transfer tax			
30 Changes in relation to securities	*	*	*
Corporation tax			
31 Reduction in rate of ACT to 29/71sts of the amount of the distribution	−120	−120	−60
32 Reduction in small companies rate of 29 per cent	*	*	−20
33 Relief for single donations to charity by companies	*	*	−35
34 Loans by close companies	*	*	*
35 Transfer of losses on company reconstruction	*	*	+5
Corporation tax and capital gains tax			
36 Small part disposals of land	—	—	−5
Oil taxation			
37 Technical changes to remove anomalies	*	*	*
Capital gains tax			
38 Indexation of annual exempt amount	—	—	−5
39 Restriction of holdover relief for dual resident trusts	—	—	+5
Capital transfer tax (inheritance tax)			
40 Abolition of lifetime charge on transfers between individuals and consequential changes	−35	−35	−55
41 Indexation of chargeable rate bands	—	−20	−45
Stamp duties			
42 Reduction in rate on shares to ½ per cent from autumn 1986	−70	−70	−75
43 Changes from March 19 1986	+50	+50	+50
44 Other changes from autumn 1986	+20	+20	+35
TOTAL INLAND REVENUE	−975	−2,135	−2,790
CUSTOMS AND EXCISE			
Value added tax			
45 Increase in registration limits	—	*	*
46 Revised treatment of motoring expenses	—	—	+40
46 Revised treatment of motoring			
47 New rules on disaggregation of registrations	*	*	+20
48 Revised treatment of hotels and tourism	—	—	+10
49 Reliefs for charities and the handicapped	−10	−10	−10
50 Direct exports	—	—	—
51 Transfer of import relief	—	—	—
Excise duties			
52 No change in rate of spirits duty	−45	—	—
53 No change in rate of beer duty	−95	—	—
54 No change in rate of duty on cider and perry	−5	—	—
55 No changes in rates of wine and made wine duties	−30	—	—
56 Increases in rates of duty on petrol etc	+110	+380	+400
57 Increase in rate of duty on derv	+30	+95	+105
58 No change in rate of fuel oil duty	−5	—	—
59 Abolition of duty on most lubricating oils	−10	−10	−10
60 Abolition of duty on AVTUR	−10	−10	−10
61 Increase in rate of duty on gas oil	+25	+30	+30
62 Increases in rates of tobacco products duties	+175	+315	+335
63 Abolition of certain excise licences	*	*	*
64 Northern Ireland betting and gaming	*	*	*
65 Excise warehousing regulations	—	—	—
TOTAL CUSETOMS AND EXCISE	+130	+790	+910
Vehicle excise duty (VED)			
66 No change in VED on car, light van and main lorry rates	−135	—	—
67 Increases in other VED rates	—	+5	+5
68 Changes in trade licensing arrangements	*	*	*
Other			
69 Bus fuel grants	−5	−10	−10
TOTAL CHANGES IN TAXATION	−985	−1,350	−1,885

* Negligible. — = Nil

Small increase in mortgage interest payments

AFTER THE Chancellor's speech the Inland Revenue issued the following statement

The Chancellor proposes in his Budget to fix the mortgage interest relief limit for 1986-87 at £30,000 (the same as for 1985-86).

Effect of the reduction in basic rate:

The Chancellor's proposal to reduce the basic rate of income tax from 30 per cent to 29 per cent for 1986-87 will affect the amount of the payments that borrowers make on loans within the MIRAS (mortgage interest relief at source) scheme.

Income tax should be deducted from interest payments within Miras in 1986-87 at the new basic rate of 29 per cent. The effect will generally be a small increase in the interest payments to be made. For example, on a home purchase loan of £20,000 at a rate of interest of 13 per cent the gross interest payable is £216.66 per month. At the present basic rate of 30 per cent the net monthly interest payable is £151.66. Under the new basic rate of 29 per cent this will be £153.83 per month.

These figures are purely illustrative. The actual amounts by which mortgage payments will alter depend on the borrower's circumstances including the loan balance outstanding in the year and the rate of mortgage interest charged. In due course building societies and other lenders will send details of revised payments to their borrowers. Any queries about the revised amounts payable should be addressed to the lenders concerned.

Effective date for basic rate change

The basic rate change takes effect from the start of the 1986-87 tax year on April 6 1986. Deduction of tax at the rate of 29 per cent applies to Miras interest payable and paid on or after that date. For accounting reasons it has been customary for some building societies and other lenders to regard interest for a year ended on March 31 as being that on which relief for the tax year ending on the following April 5 is calculated.

Where this has been the practice and there will be problems in switching to the strict April 5 basis the new basic rate of 29 per cent can be used for calculating payments

Stamp duty halved to ½% and extended to takeovers and mergers

THE CHANCELLOR proposes to cut from 1 per cent to half per cent the rate of stamp duty on share transactions, and to broaden the base of the duty and tax various share deals which are at present exempt.

The lower rate of duty will in general take effect from the date of the Stock Exchange reforms ("big bang").

Transactions to be brought within the scope of taxation will include takeovers and mergers, intra-account deals, letters of allotment, purchases by a company of its own shares and certain loan stock.

There will be a special rate of duty of 5 per cent where shares are converted into depositary receipts.

The package, which is expected to be revenue neutral, will:

● significantly improve the United Kingdom's competitive position in the worldwide securities market;

● encourage wider share ownership;

● result in a fairer tax burden as between different financial transactions.

There is no change to the stamp duty on house purchases.

Rate of Duty: The new half per cent ad valorem rate of duty applies to sales of stock or marketable securities on or after "big bang" (planned for 27 October 1986). Transfers which relate to transactions before "big bang" will continue to be liable to the one per cent duty.

The rate of duty chargeable on instruments which fall under the bearer instrument head of charge will remain unchanged.

Depositary Receipts: Duty is to be charged at 5 per cent when United Kingdom shares are "converted" into depositary receipts. At present stamp duty at the normal rate is applicable when shares are transferred into the name of a nominee for a bank which issues depositary receipts; but transfers of depositary receipts, unlike transfers of the underlying shares, do not attract stamp duty.

In recent years a substantial slice of the market in certain United Kingdom shares has been diverted to the market in American Depositary Receipts in New York. The higher rate of duty to be imposed when shares are initially lodged with a depositary bank is designed to ensure that there is no fiscal advantage in buying UK shares in depositary receipt form.

The new charge will apply where United Kingdom stocks and shares or other marketable securities are transferred to the person who is to hold the shares as nominee for a bank which issues depositary receipts.

Where the transfer is chargeable under the "conveyance or transfer on sale" head of charge, the 5 per cent duty applies to the consideration paid. Where, because the shares are deposited by the owner in exchange for a depositary receipt, duty is chargeable under the "conveyance or transfer of any other kind" head of charge, the 5 per cent duty applies to the value of the shares etc at the date of tha transfer.

Where shares are transferred between one depositary and another the ad valorem stamp duty will not apply. It is also proposed that ad valorem duty should not be payable (as it may be in certain circumstances at present) where the holder surrenders a depositary receipt and the underlying securities are transferred into his name. In both cases a fixed duty of 50p only will be payable.

These new rules apply to any instrument which is executed after March 24 1986 unless it is in pursuance of a contract made on or before March 18 1986. The new Stamp Duty Reserve Tax (see below) will, however, bring within the scope of the 5 per cent charge shares deposited on or after March 19 1986.

Clearance Services: Computerised settlement systems exist which enable UK shares to be bought and sold without payment of stamp duty. The proposed new 5 per cent duty will also apply where shares are transferred to a clearing house or to its nominee holding company.

These provisions will not apply to the clearance facilities provided by the Stock Echange for which a statutory composition arrangement will continue to apply. The Finance Bill will contain proposals which will enable other clearing houses to enter into similar arrangements.

Takeovers, Mergers, etc: The exemptions from sale duty for the following transactions are being drawn:

i. Takeovers and transfers of shares on a winding-up (provided by Sections 78, 79 and 80 of the Finance Act 1985);

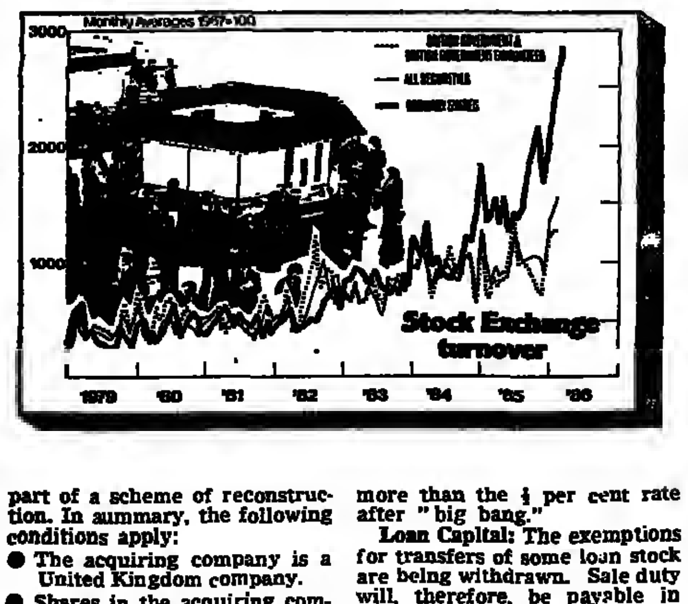
ii. Schemes of reconstruction and amalgamation (provided by Section 55 of the Finance Act 1927 and Section 4 Finance Act (Northern Ireland) 1928); and

iii. Demergers (provided by paragraph 12(1) Schedule 18 Finance Act 1980).

Transfers covered by these provisions will in future pay duty at a rate of half per ecnt.

The new rules will apply to instruments executed on or after March 25 unless executed in pursuance of an unconditional contract made on or befora March 18. The original exemptions will still, however, be available for instruments executed on or after March 25 if the transfer is of shares, and it is the result of a general offer which became unconditional as to acceptances on or before March 18.

Two reliefs are being introduced. The first is designed to ensure that company reconstructions which do not involve any real change in ownership remain exempt. The exemption will apply only where a company acquires an undertaking as part of a scheme of reconstruction. In summary, the following conditions apply:



● The acquiring company is a United Kingdom company.

● Shares in the acquiring company are issued to all the shareholders of the company from which the undertaking is being acquired and no one else.

● The shares are issued on a pro-rata basis to the shareholders of tha other company.

● There is no other consideration apart from the assumption or discharge by the acquiring company of the other company's liabilities.

● The acquisition is for bona fide commercial reasons and does not form part of a scheme for the avoidance of tax or stamp duty.

This new exemption will apply to instruments executed on or after March 25, unless executed in pursuance of an unconditional contract made on or before March 18, when the old exemptions will apply.

The other relief will broadly ensure that transfers of property (as distinct from shares) at present exempt under one of the provisions to be repealed pay no more than the ½ per cent rate after "big bang."

Loan Capital: The exemptions for transfers of some loan stock are being withdrawn. Sale duty will, therefore, be payable in future on transfers of loan capital including local authority stock.

The following will, however, continue to be exempt:

● gilt edged securities

● loans raised by various international organisations where the UK is under a treaty obligation to provide an exemption from tax.

● loan stock in bearer form (eg the type of securities dealt with in the euro-bond market).

● short term loans for whatever purpose: ie loans where the date for repayment is not more than five years after the date on which the loan is issued or raised.

Transfers of loan stock to which the charge applies will pay duty at the new ½ per cent rate immediately—ie where the instrument is executed after March 24, unless it is in pursuance of a contract made on or before March 18 1986.

Purchase of Own Shares. The Finanec Bill will contain proposals for imposing a charge to sale duty where, on or after "big bang," a company buys its own shares. Duty is not at present payable in these circumstances.

Letters of Allotment. As part of the policy of broadening the base of the charge, exemptions for letters of allotment are being withdrawn. A charge is not being imposed on letters giving the holder the right to an allotment of gilt edged securities.

The exemption from sale duty for renounceable letters of allotment etc in respect of securities subject to stamp duty is being withdrawn from "big bang." When new shares are to be issued (for example when a company obtains a listing or there is a rights issue) subscribers are frequently given a renounceable letter of allotment which gives the holder rights to the shares to be issued. Provided the renunciation period does not exceed six months any sale of the rights to the shares is at present exempt from stamp duty.

Before the letter of allotment can be exchanged for shares, stamp duty will in future have to be paid where the person to whom tha shares are issued has purchased the rights to the shares either from the person to whom the letter of allotment was issued or from a person to whom those rights were sold. The Stamp Duty Reserve Tax (see below) will apply to intermediate sales.

The exemption for "bearer letters of allotment" is being withdrawn with effect from March 25. Section 81 of the Finance Act 1985 was intended to end a device (the so-called Pref-Trick) which has been used to avoid payment of stamp duty on a company takeover in circumstances where the relief for paper for paper exchanges would not be available.

The device took advantage of the exemption from sale duty for renounceable letters of allotment and similar instruments. Section 81 withdrew the exemption where these documents were used in connection with a takeover or the acquisition of a minority holding following a successful bid.

The Section did not, however, apply to "bearer letters of allotment" and this has resulted in a number of schemes for avoiding payment of stamp duty by the use of bearer letters of allotment. To stop these schemes, it is proposed to withdraw the exemption for bearer letters of allotment with effect from March 25.

Transactions which do not give rise to stamp duty: A charge (Stamp Duty Reserve Tax) is to be imposed with effect from "big bang" on certain share transactions which do not in practice attract stamp duty.

Although stamp duty is in principle payable on any purchase of shares, it has in practice to be paid only if the purchase has to be evidenced in writing and the share register is kept in this country. If a transaction is effected orally, or arises solely from the conduct of the parties, there is no document and hence no duty to pay.

Moreover, not all documents attract duty. Stamp duty accordingly is not in practice payable on "closing" transactions within the Stock Exchange account, purchases of shares where stock is registered in the name of a nominee who acts both for the seller and purchaser, or transfers of letters of allotment.

A charge will be imposed on the purchase of any shares etc unless the sale is evidenced by a duly stamped instrument. The charge will not, however, apply to:

i. Any stocks or shares exempt from sale duty (for example gilt edged securities);

ii. Stock or securities chargeable under the bearer head of charge;

iii. Depository certificates to which the new 5 per cent duty relates;

iv. Any traded option within the meaning of Section 137(9) CGTA.

The charge will apply generally to transactions that take place after "big bang." It will, however, also apply where shares are deposited on or after March 19 with a bank which issues depositary receipts where the new 5 per cent stamp duty rate has not been paid. In these circumstances the tax will be at the special 5 per cent rate and not at the general half per cent rate.

Further details will be given when the Finance Bill is published.

Stock Exchange Reforms. To provide continuity of treatment, the stamp duty exemption for stock acquired by a jobber is to apply after "big bang" to all Stock Exchange market makers for the stocks in which they are registered.

The Finance Bill will provide for the exemption to apply to registered market makers of others Recognised Investment Exchanges when the regulatory regime for these is established after the passage of the Financial Services Bill.

The Finance Bill will enable the Inland Revenue to enter into composition arrangements, similar to those that already apply to the Stock Exchange, with clearing houses for the payment of stamp duty on transactions cleared.

Temporary statutory effect will be given to a number of the changes by Resolutions to be moved at the end of the debate on the Budget Statement. In general the changes will apply to instruments executed on or after March 25 which relate to transactions that take place on or after March 19.

Substantial growth likely in domestic spending and exports

THE financial statement published yesterday outlined short-term prospects for the period to mid-1986. It said:

There were further sizeable increases in both exports and business investment in 1985. For the forecast period, substantial growth is likely not only in most areas of domestic spending but also in exports. Total domestic production and manufacturing output are both expected to record further growth of some 2½-3 per cent.

Employment bas continued to rise, witb over 200,000 extra jobs in the year to September 1985. In spite of this, there has been some further rise in unemployed claimants over the last year. However, the labour force is now expected to grow less rapidly, and prospects for unemployment are better than for some years.

After rising in the early months of 1985, inflation bas been on a downward path since June, and in January 1986 the RPf increase over the previous year was 5½ per cent. The inflation rate is expected to fall quite sbarply over the coming mooths and is forecast to be 3½ per cent in the fourth quarter of 1986.

Tbe UK forecast is based on the assumption that fiscal and monetary policies are set within the framework of the MTFS. Oil prices, both North Sea and world, are assumed to average $15 per barrel for the rest of 1986. Neither the aterling index nor the sterling/dollar exchange rate is assumed to change much.

Output in the world economy bas now been rising since early 1983, and inflation has been coming down since 1980. Assisted by furtber moves to lower interest rates, a period of low inflation and good growth in output and trade is in prospect. Many of tbe problems arising from payments imbalances and debt repayments will remain. But the benefits to trade, output and inflation from the fall in oil prices sbould prove substantial.

Exports bave grown strongly over the last two years. The current account of the balance of payments is expected to remain in sizeable surplus despite the big fall in oil prices. Offsets include higher export earnings on other goods, lower profits earned by foreign oil companies in the North Sea, and higher earnings from the UK's stock of overseas assets.

World economy: After a spurt in 1983 and the first half of 1984, US economic growth bas slowed down sharply. By the final quarter of 1985 real GNP was 2½ per cent higher than a year earlier. The performance of the US economy bas strongly influenced the pattern of economic growth in other major industrialised countries.

In Japan and Germany, in particular, output grew significantly faster than domestic demand in both 1984 and 1985, thanks to the substantial external contribution to demand, stemming in large part from the US. More recently the recovery in Europe bas strengthened and growth has become less dependent on exports to the US. In Japan, growth bas shown some signs of slackening, although remaining high by European standards.

Domestic demand is now growing at similar rates in the US and other major industrialised countries. But the effect of mucb faster growth between 1982 and 1984 in the US, together witb tbe effects of the rise—still only partially reversed—in the dollar, are seen in tbe pattern of current account balances: a large deficit in the US and large surpluses in Germany and Japan.

There have, though, been a number of helpful steps towards reducing these imbalances over the past year. Slower growth in the US haa not only redneed the increase in US imports, but also contributed to lower interest rates and a fall in the dollar. The latter was belped by tbe Plaza Agreement of 22 September 1985 between the Finance Ministers of the Group of Five.

The rale of world inflation fell further in 1985: consumer prices in the major industrialised countries increased on average by about 4 per cent, compared with over 4½ per cent in 1984. This has been associated with a continuing weakness in primary product prices.

Since November 1985, oil prices have fallen sharply. Before the first oil price shock the noo-Communist world demand for oil was around 48m barrels per day, and about 30mbd of this was produced by Opec members. Despite the 1973-74 increase in oil prices, Opec managed to maintain roughly this level of production throughout the 1970s.

After falling in 1974 and 1975 total demand for oil rose again during the rest of the decade, wbile noo-Opec supply grew by roughly the same amount in absolute terms. Chart 3.2 abows total oil production; this is the sum of Opec and non-Opec production (the latter defined to ioclude net exports of oil from the Communist bloc) and is equal to non-Communist world consumption plus stockbuilding.

Experience since the second sbarp increase in oil prices in 1979 bas been very different. Demand for oil bas fallen and non-Opec supplies have continued to rise steadily. Opec'a pricing policy made it effectively the residual source of suply, and demand for Opec oil nearly balved from about 31½ m b/d in 1879 to less than 17½m b/d on average in 1985. Saudi Arabla's production fell particularly sharply.

Towards the end of 1985, Saudi Aradia indicated that it was no longer prepared to bold its own production at very low levels in order to maintain the existing level of prices. The resulting increase in supply, combined with no sign that other producers were prepared to make offsetting cuts in their production, bas produced a sharp fall in prices.

Total demand and supply for oil may respond only gradually even to the large fall in price, and so excess capacity is likely to be present for sometime. This forecast assumes that prices will average $15 per barrel for the rest of 1986 and throughout 1987 — rather below, in real terms, the level between 1974 and 1979.

The prices of most other primary products are also unlikely to strengthen significantly over the next year or so, since with some exceptions (for example a temporary shortfall in the coffee crop), supplies are abundant and stocks relatively high. The industrial countries can therefore expect further improvements in their terms of trade, raising real incomes and enabling inflation to fall further (See accompanying table).

The growth of real GNP in the US should pick up in 1986, benefiting from lower oil prices and from the effect of the lower dollar on trade. Consumers' expenditure, while growing more slowly than in recent years, should be helped by the lagged effects of lower interest rates and rises in asset prices.

Growtb in Japan may be weaker than usual in 1986 as the expansion of domestic demand may not be sufficient to compensate for a slowdown in the growth of exports. In most European countries the economic recovery should atrengthen in 1986, with the rate of growth Increasing, particularly in Germany.

The major industrialised countries may grow by about 3½-4 per cent over the next year. Together with lower inflation and interest rates in the major countries and the reduced cost of oil imports, this should provide a better prospect for the non-oil developing countries, despite weak commodity prices. On the other hand, countries heavily dependent on oil exports, particularly those with debt problems, face severe difficulties and will have to cut their imports further.

This picture of world activity is reflected in the pattern of world trade growth. Import growth is likely to be strongest in oil-importing countries and where exchange rates have appreciated most over the past year. This points to rapid growth of imports into Europe, Japan and many developing countries, but to large falls in oil producers' imports. Overall import growth in 1986 should be well above that of 1985.

Financial conditions: The dollar bas declined substantially (by over 20 per cent against a basket of other currencies) since its peak in early 1985. In 1885 as a wbole tbe sterling index was little different from 1884. There were however some sizeable swings during tha course of the year. The index rose from a low point of 70½ in January to a high of 84½ in July before declining to 78 in December. The index declined further in the opening months of this year, as oil prices fell. Over the past year, sterling has risen by about 30 per cent against the dollar, but fallen against most other currencies. The forecast assumes that sterling will not change much, either in dollar or effective terms.

Short-term interest rates fell during much of 1985 from the peak levels reached in February and March. They rose again in January this year as sterling weakened but in 1986 so far they have been a little below levels a year earlier. However, on average in 1985-86 short rates, at 12 per cent, have been a point or so above the levels of 1984-85 and several points above levels in the US and most other industrialised countries. Long rates have been much more stable. Yields on 20 year gilts have been within the 10-11 per cent range for almost all of the last three years, but they have recently fallen below 10 per cent for the first time since 1973. Real yields on index-linked gilts have also been relatively stable.

M0 was near the centre of its target range in the early months of 1985-86, but growth slowed during the course of the year, mainly in response to the increase in interest rates last winter. In recent months M0 growth has generally been just above the bottom of its target range. The annual increase in M0 velocity has been relatively stable for many years now, and is expected to remain so.

Growth in the non-interest-bearing component of M1, 3 per cent over the last year, has also slowed. This has been in response to higher interest rates and the increasing availability of high interest cheque accounts which are in M1, contributing to an acceleration in M1 in total.

The rate of growth of £M3 has risen during the course of 1985-86 and has been well above both the target range set in the 1985 MTFS and the growth of money GDP. With the funding objective now set at the level needed to cover the PSBR, £M3 growth, at 14-15 per cent on a year earlier in receot months, bas reflected a continued strong expansion of bank credit. Otber broad aggregates bave grown at much the same rale.

The rapid expansion of broad money and credit reflects to a large extent the pace of financial innovation and liberalisation. Since over two-thirds of £M3 bears interest and is now an attractive means of holding financial wealth, the high level of real interest rates may have contributed to higher bank deposits.

The higher levels of broad money and debt in relation to incomes probably reflect a permanent and continuing shift in the private sector's portfolio which is not likely to be reversed through higher spending. They are thus consistent with the slower growth of nominal incomes and fall in inflation contained in this forecast.

Trade and the balance of payments: The last two or three years as a whole have exhibited relatively little change in most measures of cost and price competitiveness, although there have been large short-term swings associated with movements in the nominal exchange rate. As the accompanying table shows, the effects of a lower nominal exchange rate have been broadly offset by unit labour cost increases at home above those in the UK's main overseas competitors, despite a good UK productivity performance. Assuming not much change in the exchange rate, the UK's cost and price competitiveness in 1986 may be little different from the average of the last three years.

Prices of most categories of imports fell during the course of 1985. The exchange rate anpreciated during the course of the year, inflation in the developed world was low and commodity prices were weak. By the final quarter of 1985 import prices of all goods and services were 5½ per cent lower than a year earlier. About half of the fall seems likely to be reversed by the end of 1986.

For 1985 as a whole, the terms of trade for goods were 1 per cent above those of 1984 because of the weakness of commodity prices (see Table 3.4). But the terms of trade are likely to be worse in 1986 because the price of oil has fallen relative to other goods and services. As oil has a greater share in UK exports than in imports, a fall in its price reduces export prices relative to import prices. The fall in oil prices on its own worsens the terms of trade in goods by 5 per cent.

UK exporters of manufactures bave gradually improved their market share in volume terms since 1981. The value share fell for a time after 1980 as UK export prices fell relative to those of other countries, but since 1983 there has been little change. The forecast of exports of manufactures in volume terms is for further growth of 6 per cent in 1986, a little faster than the growth of UK export markets.

Between 1982 and 1985 the growth in demand for manufactures (5½ per cent at an annual rate) has been shared by importers and domestic producers, with importers continuing to increase their share. Domestic demand for manufactures is expected to grow in 1986, because of further growth in investment and expenditure on consumer durables in particular. Growth in imports of manufactures in 1986 is forecast to be over 7 per cent, twice as fast as domestic demand growth, a relationship similar to that between 1982 and 1985.

The prospect is for a substantial fall in the surplus on trade in oil in 1986 as a result of lower oil prices, partly offset in the current account as a whole by reduced invisible earnings of foreign owned companies operating in the North Sea. Little change in oil production is expected and domestic demand for oil may be below the 1985 level which was boosted by the coal strike.

The surplus on trade in services has more than doubled since 1982. 1985 was an exceptionally good year, with large gains in earnings from financial services, tourism and travel. With imports of services, particularly tourism, likely to grow faster, the balance on services may show only a modest gain in 1986.

The profile of the transfers balance is affected by the timing of official transactions with the European Community. As the bulk of the UK's rebate on its 1984 contribution was delayed into the first few days of 1986, the transfers balance was unusually low in 1985, by about £½bn. A correspondingly high figure is projected for 1986.

On provisional estimates, the surplus on interest, profits and dividends (IPD) fell in 1985. Earnings on UK investment overseas were depressed by a once-for-all write off of losses on BP's Sohio subsidiary and UK banks' net earnings on their foreign currency business fell.

In 1988 the surplus on IPD is expected to rise sharply. Lower oil prices will reduce the profits of foreign oil companies operating in the North Sea more than they reduce the profits of UK oil companies' overseas operations, and there should be a net rise in the other components of IPD as a result of a projected further increase in the UK's net overseas assets.

The accompanying table summarises the current account and its main components. Allowing for the effects of the coal strike the current account was in sizeable surplus in each of the last three years and a substantial surplus is again forecast for 1986 and a further but reduced surplus is forecast for the first half of 1987.

On an underlying basis, the surplus in 1986 is expected to be lower than in 1985, as a result of the big fall in oil prices. The contribution of North Sea oil to the current account — defined here as the visible surplus on oil less North Sea profits due abroad — is forecast to fall from £4½bn in 1985 to £3bn in 1986. The accompanying chart shows the components of the account over a longer period, relative to GDP.

The UK's stock of net overseas assets is estimated to have been 25 per cent of GDP (almost £90bn) at the end of 1985, compared with 6 per cent of GDP (£12bn) in 1979.

Inflation: In the year to the fourth quarter of 1985 the RPI increased by 5½ per cent, a little more than forecast in last year's FSBR. In the middle of the year retail price inflation touched 7 per cent, reflecting, in particular, increases in mortgage interest rates in February and April 1985 and the weakness of sterling in late 1984 and early 1985. Between 1985 and January 1986 retail prices rose by only 1.1 per cent in total, helped by a fall in mortgage rates, by lower petrol prices, and a general easing of cost pressures.

Import prices declined during 1985 and in the final quarter were about 5 per cent lower than a year earlier. Prices of the manufacturing sector's materials and fuel inputs fell rapidly from their peak in February and by the end of the year were 6 per cent below their December 1984 level. The rate of increase in manufacturing output prices started to slow down in the second half of 1985.

The underlying growth of average earnings (that is, abstracting from the effects of strikes, delayed settlements and other temporary factors) continued at about 7½ per cent in 1985—little changed from 1984. With output per head growing at about 2 per cent (after allowing for the effects of the coal strike) the growth in unit wage costs was about 5½ per cent in 1985. Unit labour costs rose by about 1 per cent less, mainly because of the abolition of the national insurance surcharge in October 1984. In the manufacturing sector, average earnings increased by 8½-9 per cent and unit labour costs by 4 per cent. This was much faster than in most other major industrial countries (see the accompanying chart). Pre-tax real earnings of employees increased by an average of 2-2½ per cent between 1982 and 1985.

So far the current pay round is showing little sign of any significant change in the level of pay settlements or in the underlying rate of growth of average earnings in the private sector. Unit labour costs for the economy as a whole may rise by around 5 per cent in 1986. World commodity prices are likely to remain weak in 1986.

With oil prices in sterling terms falling by almost a balf between 1985 and 1986, the overall cost of manufacturers'

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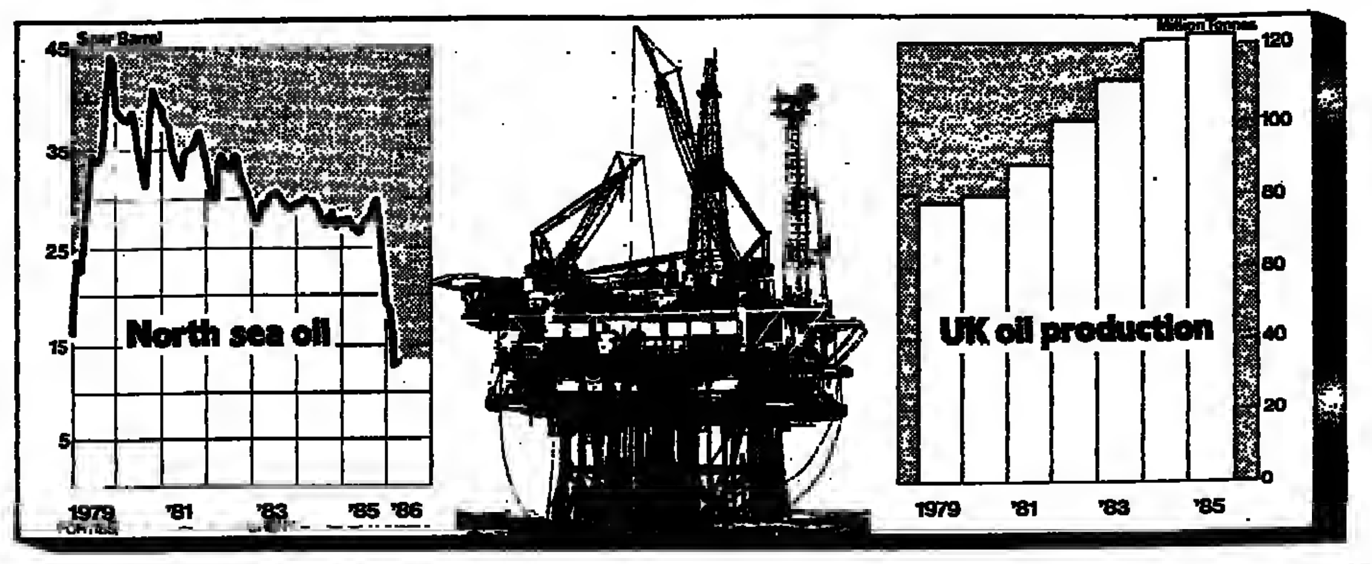


FORECASTS OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT*

£bn at 1980 prices, seasonally adjusted

	Consumers' expenditure	General government consumption	Total fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	Less imports of goods and services	Less adjustment to factor cost	Plus statistical adjustment	GDP at factor cost	GDP index 1980=100
1981	136.5	48.9	37.9	62.0	−2.5	282.9	57.9	30.0	−0.5	196.5	98.6
1982	137.6	49.4	40.1	62.8	−1.1	288.7	58.7	30.6	0.7	200.1	100.4
1983	142.9	50.2	42.2	64.4	0.7	300.4	62.1	31.5	0.1	206.7	103.7
1984	145.6	50.9	45.5	69.1	−0.1	310.9	68.0	32.7	2.0	212.1	106.4
1985	149.6	51.2	45.9	73.2	0.9	320.9	70.1	33.6	1.6	219.0	109.9
1986	155.5	51.6	48.2	76.8	0.8	332.8	74.2	34.8	1.8	225.8	113.3
1984 H1	72.6	25.2	22.7	33.7	−0.3	153.9	32.9	16.3	0.6	105.3	105.6
H2	73.0	25.7	22.8	35.4	0.1	157.0	35.1	16.4	1.4	106.9	107.3
1985 H1	74.0	25.5	23.2	36.8	0.2	159.7	35.0	16.6	1.0	109.1	109.4
H2	75.7	25.7	22.7	36.4	0.7	161.2	35.1	17.0	0.9	110.0	110.4
1986 H1	75.9	25.7	24.1	38.1	0.2	165.1	36.5	17.2	0.8	112.2	112.6
H2	78.6	25.8	24.0	38.7	0.6	167.7	37.6	17.5	1.0	113.6	114.0
1987 H1	79.8	25.9	24.2	39.3	0.7	170.0	38.3	17.7	0.9	114.9	115.3
Per cent changes											
1983 to 1984	2	1½	8	7	—	3½	9½	3½	—	2½	2½
1984 to 1985	3	½	1	6	—	3	3	3	—	3½	3½
1985 to 1986	4	1	5	5	—	3½	6	3½	—	3	3
1986 H1 to 1987 H1	4	½	0	3	—	3	5	3	—	2½	2½

* GOP figures in the tablu are based on "compromise" estimates of gross domestic product, reflecting, for the past, average movements in constant price expenditure, output and income estimates of GOP. Percentage changes are calculated from unrounded levels und then rounded to half per cent. Figures for 1986 H1 and beyond are forecasts. Figures for periods up to the end of 1985 are based mainly on the national accounts published earlier this year (covering periods up to 1985 Q3) and incorporate some revised and later data and forecasts. A full set of national accounts, to end 1985, will be published by CSO on March 21.

EMPLOYMENT

Thousands, change in Employees in employment

	Male	Female full-time	Female part-time	Self employed	HM Forces	Employed labour force
September 1983 to September 1984	−105	+19	+174	+236	+3	+348
September 1984 to September 1985	−105	+20	+181	+125	−2	+218

SHORT-TERM ECONOMIC PROSPECTS

	Forecasts	Average errors from past forecasts†
A. Output and expenditure at constant 1980 prices		
Per cent chaoges 1985 to 1986:		
Domestic demand	3½	1
of which:		
Consumers' expenditure	4	1
General government consumption	1	1
Fixed Investment	5	3
Change in stockbuilding (as per cent of level of GDP)	0	½
Exports of goods and services	5	2½
Imports of goods and services	6	3
Gross domestic product: total	3	½
manufacturing	3	2
B. Inflation	per cent changes	
Retail prices index		
1985Q4 to 1986Q4	3½	1½
1986Q2 to 1987Q2	3½	2½
Deflator for GDP at market prices	per cent changes on a year earlier	
Financial year 1985-86	6	1
Financial year 1986-87	3½	2
C. Money GDP at market prices	per cent changes on a year earlier	
Financial year 1985-86	9½	1½
Financial year 1986-87	6½	1½
D. Balance of payments on current account	£ billion	
1986	3½	2½
1987 first half (at an annual rate)	1½	3
E. PSBR	£ billion*	
Financial year 1985-86	7(2)	1(½)
Financial year 1986-87	7(1½)	5(1½)

* Per cent of GDP at market prices shown in parentheses.
† The errors relate to the average differences (on either side of the central figure) between forecast and outturn. The method of calculating these errors has been explained in earlier publications and government forecasts (see Economic Progress Report June 1981). The calculations of average errors are based on forecasts made between 1975 and 1984. The errors are after adjustment for the effects of major changes in fiscal policy where excluded from the forecasts.

WORLD ECONOMIC PROSPECTS

Per cent changes on a year earlier

	1984	Estimates 1985	Forecasts 1986	1987 First half
Major Seveo countries*				
Real GNP	4½	2½	3½	4
Consumer prices	4½	4	2½	1½
World trade, at constant prices[u]				
Total imports	10	3	5½	5½
UK export markets†	8½	4½	5	5

* US, Japan, Germany, France, UK, Italy and Canada. † Manufactures.

GROSS FIXED DOMESTIC CAPITAL FORMATION

	£bn at 1980 prices 1984	Per cent changes on a year earlier 1984	1985	Forecast 1986
Busioess[u]	29.2	10	2	5
Private dwellings†	9.5	4	0	5
General government	6.8	4	5	3
Total fixed investment	45.5	8	1	5

* Including investment by public corporations.
† Includes purchases less sales of land and existing buildings by persons, companies and public corporations, other than purchases of council houses.

WORLD IMPORT VOLUMES ANNUAL GROWTH RATES

	US	Japan	Europe*	Opec	Developing countries	Other	Total
Weights in 1984	19	8	31	—	14	21	100
Per cent changes on a year earlier							
1984	24	11	6	−10	6	11	10
1985 Estimates	3	1	5	−8	1	6	3
1986 Forecasts	—	9	8	−18	7	6	5½

* Germany, France, UK, Italy, Netherlands and Belgium.

OUTPUT PER HEAD

	Employed labour force (m) 1984	Per cent changes in output per head (annual averages) 1964-73	1973-79	1979-85
Manufacturing	5½	3½	½	3½
Non-manufacturing*	13½	3	½	1

* Excludes public services and oil, and includes nationalised industries except steel.

DOMESTIC DEMAND AND TRADE

Per cent changes on a year earlier (at constant prices)

	1985	Forecasts 1985	1987 First half
Domestic demand	2½	3½	3
Exports of goods and services	6	5	3
Imports of goods aod services	3	6	5

EXCHANGE RATE AND COMPETITIVENESS*

	Sterling Index (1975=100)	Relative unit labour costs (1980=100)	Relative export prices (1980=100)	Import price competitiveness (1980=100)
1983	83½	85	89	94½
1984	78½	83½	87½	92
1985 estimates	78	86½	90	91½

* Ratio of costs/prices in UK manufacturing to those overseas.

FORECAST AND OUTTURN

	Forecast	Latest estimate/forecast	Average errors from past forecasts
Total output per cent change between 1984 and 1985	3½	3½	½
RPI: per ceot increase between the fourth quarters of 1984 and 1985	5	5½*	1½
Money GDP, per cent change between 1984-85 and 1985-86	8½	9½	1½
Curreot account of the balance of paymeots in 1985, £bo	3	3	2½
PSBR financial year 1985-86, £bn	7	7	5

* Outturn.

RETAIL PRICES INDEX

Per cent changes on a year earlier

	Weights in 1985	1984 Q4	1985 Q4	Forecast 1986 Q4	1987 Q2
Food	19	3½	3	3	3½
Nationalised industries[u]	8	4	5½	4	3
Housing	14	10½	9½	7½	5
Other	58	4	5½	3	3½
Total	100	5	5½	3½	3½

* Including water

TRADE IN GOODS

Per cent changes on a year earlier

	Export volume	Import volume	Terms of trade*
1983	2	8	1 (1)
1984	8½	11	−2½(−1½)
1985	5½	3	1 (1½)
1986 forecasts	6	5½	−3 (2)

* The ratio of UK export to import prices (average values): the figures in parentheses exclude oil.

REAL GDP AND MANUFACTURING OUTPUT

Per cent changes on year earlier

	1985	Forecasts 1986	1987 First half
GDP (average measure)	3½	3	2½
GDP, adjusted for coal strike[u]	2½	2½	2½
GDP, adjusted for coal strike and excluding oil output*	2½	2½	3
Manufacturing output	3	3	2½

* Adjustments are approximate.

CURRENT ACCOUNT, BALANCE OF PAYMENTS BASIS

£bn

	Oil	Manufactures	Other goods	Invisibles	Total*
1983	7	−2½	−5½	4	3 (3)
1984	7	−4	−7½	5½	1 (3½)
1985	8	−3	−7	5	3 (4½)
1986 forecasts	5	−3	−5½	8	3½(3)

* Figures in parentheses are after adjustment for the effects of the coal strike and the timing of EC rebates.

COSTS IN MANUFACTURING

Per cent changes on a year earlier

	Unit labour costs	Cost of materials and fuel*	Estimated total costs	Output prices*
1983	½	8	3	5½
1984	2½	8½	4½	5½
1985	4	4	4	6½
1986 Forecasts	4½	−11	0	4

* Producer prices excluding food and tobacco.

THE BUDGET: Details

Medium-term aim is for lower inflation and output growth

THE financial statement published yesterday detailed the medium-term financial strategy. It said:

The Medium Term Financial Strategy provides the framework for economic policy, as it has since 1980. It is intended to bring inflation down further over a period of years, and ultimately to achieve price stability. It is complemented by policies which encourage enterprise, efficiency and flexibility, thus promoting the growth of output and the creation of jobs.

Economic policy is set in a nominal framework in which public expenditure is controlled in cash terms and money GDP growth is gradually reduced by monetary and fiscal policy. As the growth of money GDP declines, inflation is squeezed out, and the division of money GDP growth between output growth and inflation is improved.

Over the past six years, money GDP growth has declined from nearly 20 per cent to around 9 per cent. Inflation has come down to around 5 per cent and is set to fall further. And the economy is about to embark on its sixth successive year of growth. For the first time since the 1960s, steady growth is now being combined with low inflation.

Objectives and the framework of policy

Policy will be directed at maintaining monetary conditions that will bring about a gradual reduction in the growth of money GDP over the medium term broadly in line with the path shown in the accompanying table. While the money GDP figures are not targets, and fluctuations will inevitably occur, the aim will be to avoid substantial departures in either direction in the medium term. This is consistent with both a further reduction in inflation and continued growth in real output at a sustainable rate.

The growth of money GDP in 1986-87 is expected to be slightly higher than assumed last year. Partly as a consequence of the sharp fall in oil prices, output growth is higher and inflation lower. In the later years, money GDP growth declines further. The path allows for higher growth of productive potential and a slower decline in oil production than was assumed last year.

While firm monetary policies must be supported by low public sector borrowing in the medium term, there is some scope for varying the balance between fiscal and monetary policy especially in the short term. In practice, the Budget provides the main opportunity to review fiscal policy, while short term interest rates can be varied more frequently to keep monetary conditions on track.

Until recently the authorities also sought to control the growth of broad money and liquidity by overfunding—that is, selling more debt than needed to fund the PSBR. This was generally seen as a distortion of financial markets, and it was reflected in the rising stock of commercial bills held by the Bank of England.

On the view that systematic overfunding was neither a sustainable nor an effective medium term means of affecting monetary conditions, the Chancellor announced in October 1985 that sales of debt outside the banking system in any one financial year would be limited to the amount needed to fund the PSBR; and that policy action within the year to influence monetary conditions would take the form of changing short term interest rates.

Monetary policy

Monetary conditions are assessed in the light of movements in narrow and broad money and the behaviour of other financial indicators, in particular the exchange rate.

Ideally, the target aggregate for narrow money should reflect those (principally non-interest bearing) assets that are directly used for making transactions, should respond unambiguously, but not be over sensitive, to interest rate changes, and should have a stable relationship with money GDP.

In practice, however, there is no single measure of narrow money that meets all these criteria. As in the United States, M1 has been inflated by a rapid growth of interest bearing sight deposits, previously held in the form of term deposits.

The same developments have distorted non-interest bearing M1 which continues to be affected by short term variations in the boundary between interest bearing and non-interest bearing accounts.

M0 covers only a narrow range of transactions balances. It has however demonstrated a relatively stable velocity trend over a long period and it responds in an unambiguous manner to changes in interest rates. Its velocity has risen as institutional change and technological developments have led to a progressive reduction in the use of cash, but this has been occurring at a fairly steady and predictable pace. M0 has proved a good indicator of monetary conditions in recent years and remains the best choice of narrow aggregate for target purposes.

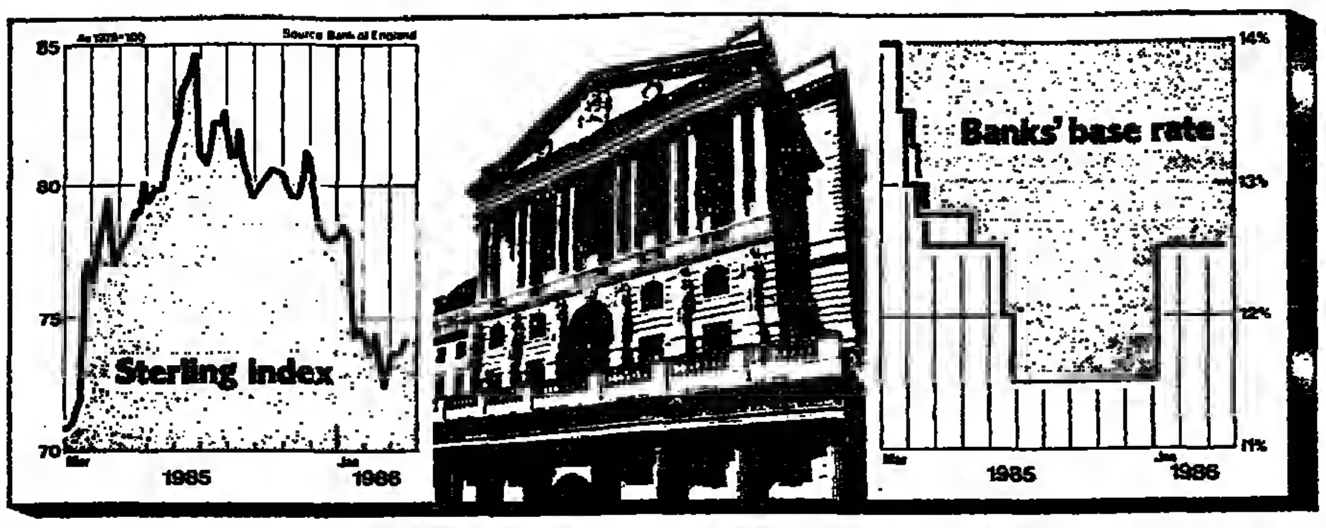
Measures of broad money have persistently grown faster than money GDP over the last six years, in contrast with experience in the 1970s. High real interest rates have increased the relative attractiveness of financial assets; and financial liberalisation and increased competition between banks and building societies have led to a rapid build-up of both liquidity and debt.

Yet this has proved consistent with a decline in both inflation and money GDP growth. At the same time the high proportion of interest-bearing deposits within broad money has meant that the immediate response of broad liquidity aggregates to changes in short-term interest rates is highly uncertain.

As in the past two years, the Government is setting targets for the year ahead, 1986-87, both for M0 and a measure of narrow money, and for £M3 as a measure of broad money. The ranges are shown in the accompanying table.

For M0, the target range of 2-6 per cent is the same as indicated in last year's MTFS. Illustrative ranges are also given for M0 in later years, consistent with the declining path of money GDP growth.

For £M3, the target range has been raised to 11 per cent to 15 per cent, reflecting the rapid fall in velocity observed in recent years. Illustrative ranges for future years are not given for £M3 because the uncertainties surrounding its velocity trend are at present too great.



In implementing policy and in making decisions about short term interest rates, the Government has to make a careful assessment of the behaviour of the monetary aggregates in relation to their targets, together with other relevant evidence, especially the exchange rate.

There is no mechanical formula for taking the exchange rate into account in assessing monetary conditions; a balance must be struck between the exchange rate and domestic monetary growth consistent with the Government's aims for money GDP and inflation.

If the underlying growth of M0 or £M3 were to move significantly outside their target ranges, the Government would take action on interest rates unless other indicators suggested clearly that monetary conditions remained satisfactory.

Experience has shown that a change in short term rates is unlikely to alter the growth of £M3 significantly within the target period. But such action clearly affects the tightness of monetary conditions, which is what matters, and this would be likely to show up in the behaviour of M0 and the exchange rate.

Fiscal policy

The PSBR in 1985-86 is expected to be about 2 per cent of GDP, in line with last year's projection. This follows four years when the PSBR remained at about 3¼ per cent of GDP.

The sharp reduction this year would have taken place in 1984-1985 but for the coal strike. It is the second significant downward step since the MTFS began in 1980. The figure of 2 per cent is the lowest recorded since 1971-72. This would still have been the case even if there had been no proceeds from privatisation.

The fiscal projections for the next four years are set out in the accompanying tables. The profile of the PSBR is much as suggested in last year's MTFS. As usual, account has been taken of the composition of receipts and expenditure.

The PSBR for 1986-87 is set at £7bn or 1¾ per cent of GDP, slightly below the level indicated in last year's MTFS. North Sea revenues are projected to decline steeply in 1986-87 to about £6bn, roughly half their level in 1985-86. The proceeds from the Government's privatisation programme are expected to rise from £2½bn in 1985-86 to £4¾bn in 1986-87, as set out in the Autumn Statement.

A further slight reduction in the PSBR to 1½ per cent of GDP is projected for 1988-89 and 1989-90. The figures after 1986-87 are illustrative and decisions about the appropriate PSBR in particular years will be taken nearer the time.

For the period to 1988-89, the expenditure projections in the accompanying table incorporate the public expenditure plans set out in the Public Expenditure White Paper (Cmnd. 9702). It is assumed that the planning total for 1989-90 will remain broadly flat in real terms. The revenue projections in the table are based on the conventional assumptions of constant 1986-1987 tax and national insurance contribution rates, and allowances and thresholds indexed from the proposed 1986-87 levels. All changes proposed in the Budget are taken into account.

The assumptions about output growth and inflation that underlie the revenue projections are shown in the accompanying table. They are consistent with the figures for money GDP growth in the table. Oil prices are assumed to average $15 a barrel for the rest of 1986 and throughout 1987, and thereafter to remain broadly unchanged in real terms. It is assumed that there is no major change in either the sterling exchange rate index or the sterling/dollar exchange rate from year to year.

Public expenditure

Continued restraint in public spending plays a vital role in the Government's economic strategy. The cash planning totals set by the Government in the White Paper are designed to hold total spending broadly level in real terms. The projection given in the accompanying table extends to 1989-90, one year longer than the published plans. The assumption for the final year implies that the planning total remains broadly flat in real terms over the whole MTFS period.

As a proportion of GDP, general government expenditure has already fallen significantly from its peak of over 46 per cent in 1982-83. Given the assumed growth of output, it is projected to decline further from 44 per cent in 1985-86 to less than 40 per cent in 1989-90.

This will enable a continued low level of borrowing to be combined with reductions in the burden of taxation, so improving motivation.

Revenue

The growth in government revenues in cash terms over the medium term will depend on the growth of incomes, spending and prices, as well as on policy decisions. On the unchanged policy assumptions set out above, general government receipts are expected to increase somewhat less than money GDP. Government revenues from the North Sea are projected to fall sharply in 1986-87 from the peak levels of 1984-85 and 1985-86 mainly because of the drop in oil prices. But the decline in revenues from this source is offset by buoyant non-North Sea revenues.

Public sector borrowing

The projections of government expenditure and receipts are brought together in the accompanying table to provide projections of the general government borrowing requirement (GGBR) and the PSBR. The size of the fiscal adjustment depends upon the estimates of revenues and expenditure.

As always, these are subject to major uncertainties. Apart from the general difficulty of projecting the yield from a given set of tax rates, recent events in world oil markets make the projection of oil revenues particularly uncertain. On the expenditure side, the planning total for the final year has yet to be agreed.

Conclusion

Events both at home and abroad may modify some of the assumptions on which the projections have been based. But the Government is committed to maintaining the progress to lower inflation in the medium term, secured by appropriate financial policies.

The MTFS provides the framework within which the Government will pursue its economic policy. It provides as firm a guarantee against inadequate money demand as it does against excessive money demand.

REVENUE AND EXPENDITURE*

Changes from 1985 MTFS projections £bn

	1984-85	1985-86	1986-87	1987-88	1988-89
Expenditure					
1. Planning total	—	−½	—	—	+½
2. Other†	+0.3	−2	−1	+½	+1
3. General government expenditure	+0.3	−2	−1	+½	+1½
Receipts‡					
4. North Sea taxes	—	−2	−5½	−5½	−4
5. Other taxes and contributions	+0.7	+1½	+2½	+3	+4
6. Other†	+0.1	−½	−½	−1	−1½
7. General government receipts	+0.8	−1	−3	−4	−2
8. Implied cumulative fiscal adjustment§	—	—	−3½	−4½	−3½
9. Public corporations' market and overseas borrowing¶	+0.1	+1	+1	—	−½
10. PSBR	−0.4	—	−½	—	−½

* Classification changes since the 1985 FSBR add the following amounts to both expenditure and receipts:

	1984-85	1985-86	1986-87	1987-88	1988-89
£ billion	+0.2	+0.3	+0.2	+0.2	+0.2

The main changes are in respect of the treatment of transactions in certain public sector pension funds and of National Savings Bank management expenses.
† Includes changes in debt interest and other items.
‡ The allocation of tax receipts between North Sea and other is affected by the treatment of advance corporation tax set-off.
§ Line 8 = lines 10 − 9 − 3 + 7.
¶ Public corporations' market and overseas borrowing is included in the planning total and in the PSBR, but not in general government expenditure. Changes in it are therefore deducted in line 2 and added back in line 9.

GROWTH OF MONEY SUPPLY AND MONEY GDP

	1985-86	1986-87	1987-88	1988-89	1989-90
Money GDP*	9¼ (8½)	6¾	6½	6	5½
M0†	3½	2-6	2-6	1-5	1-5
£M3†	14½	11-15			

* Per cent change on previous financial year. See Table 2.2 for assumptions on output and inflation. The figure in parenthesis is adjusted for the coal strike. The figure for 1986-87 is a forecast; and in subsequent years the figures describe the Government's broad medium term objective.
† 1985-86: percentage change from mid-February to mid-February. 1986-87: target ranges. 1987-88 onwards: illustrative ranges for M0.

OUTPUT AND INFLATION ASSUMPTIONS

Percentage change on previous financial year

	1985-86	1986-87	1987-88	1988-89	1989-90
Real GDP					
Non-North Sea	3¼	3	2½	2½	2½
Total	3¼	3	2½	2½	2½
Inflation					
GDP deflator	6	2¾	3¾	3¼	3

GENERAL GOVERNMENT EXPENDITURE

£bn, cash

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
General government expenditure	150.0	158	163	170	175	180
General government receipts	140.9	150	156	164	174	182
Fiscal adjustment from previous years†	—	—	—	—	2	6
Annual fiscal adjustment†	—	—	—	2	4	3
GGBR	9.1	8	7	8	7	7
Public corporations market and overseas borrowing	1.0	−1	—	−1	—	—
PSBR	10.1	7	7	7	7	7
Money GDP at market prices	327	358	382	407	431	455
PSBR as per cent of GDP	3.1	2	1¾	1¾	1½	1½

* Rounded to the nearest £1bn from 1985-86 onwards. Further details for 1985-86 and 1986-87 are provided in Tables 1.2 and 6.5.
† Means lower taxes or higher expenditure than is assumed in lines 1 and 2.

GENERAL GOVERNMENT EXPENDITURE

£bn, cash

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Public expenditure planning total*	129.6	134	139	144	149	153
Gross debt interest	16.1	18	18	19	19	19
Other adjustments†	4.3	6	6	7	7	7
General government expenditure‡	150.0	158	163	170	175	180
of which						
Privatisation proceeds§	−2.1	−2½	−4¾	−4¾	−4¾	−4¾

* For 1984-85 to 1988-89, the figures are equivalent to those in Table 5.1. They are assumed to be the same in real terms in 1989-90 as in 1988-89.
† See paragraph 5.04.
‡ General government expenditure, and its components, are rounded to the nearest £1bn from 1985-86 onwards.
§ In the Public Expenditure White Paper (Cmnd 9702) Table 1.4. Proceeds are assumed to be the same in cash terms in 1989-90 as in 1988-89.

PUBLIC SECTOR BORROWING*

£bn, cash

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Taxes on incomes, expenditure and capital	105.4	113	118	124	132	139
National insurance and other contributions	22.9	24	26	28	29	31
Interest and dividends	5.0	6	6	6	6	6
Other receipts	6.4	6	6	6	7	7
Accruals adjustment	1.1	—	—	—	—	−1
General government receipts*	140.9	150	156	164	174	182
of which						
North Sea tax†	12.0	11½	6	4	4	4

* General government receipts, and its components, are rounded to the nearest £1bn from 1985-86 onward.
† Royalties, petroleum revenue tax (including advance payments) and corporation tax from North Sea oil and gas production (before advance corporation tax set-off). This does not correspond exactly to tax receipts in the same financial year in respect of North Sea production. See footnote to Table 5.B.3.

Substantial growth likely Continued from Page 20

material and fuel inputs should fall quite sharply between the two years. The prospects are for little change in manufacturers' total costs and a further widening of profit margins on domestic sales, as shown in the accompanying table.

The fall in import prices since the spring of 1985 has contributed to the recent low monthly growth in retail prices; it will continue to contribute to low increases in prices over the coming months, so that the annual rate of inflation will fall quite sharply.

In the last quarter of the year RPI inflation may be about 3½ per cent, with little change likely in the first half of 1987. The fall in oil prices is expected to work its way fully through to petrol prices in the course of 1986. The forecast increase in the housing component of the RPI (which covers mortgage payments, rents, rates and other housing costs) includes the effect of a substantial rise in local authority rates in 1986-87.

The GDP deflator measures the price of domestic value added—principally unit labour costs and profits per unit of output—and excludes imports altogether. The GDP deflator covers all sectors of the economy, including oil output in the North Sea, and so is sensitive to the fall in world oil prices. This contributes to a marked slowdown in the growth of the GDP deflator over the coming year. The deflator for GDP at market prices is estimated to have increased by 6 per cent in 1985-86, about 1¼ per cent more than in 1984-1985. In 1986-87, inflation on this measure is expected to fall to about 3¼ per cent.

Demand and activity: Latest estimates suggest that GDP rose by about 3¼ per cent in 1985, or 2¼ per cent after making allowance for the effect of the recovery from the coal strike. Over the year to the first quarter of 1985, GDP is estimated to have risen by almost 4 per cent in strike adjusted terms: since then the path of GDP has been flatter.

The rise in GDP between the first and third quarters of the year was more than accounted for by recovery from the coal strike, but growth seems to have picked up again in the fourth quarter; the preliminary estimate of the output measure of GDP showed growth at an annual rate of 3½ per cent between the third and fourth quarters of the year.

The flattening out of strike adjusted GDP during the middle of 1985 reflected in part the high level of business investment and North Sea output in the first quarter of the year. Output in most sectors of the economy, including manufacturing, continued on an upward trend throughout 1985.

Between 1980 and 1983 the inflation rate fell by about three-quarters and the personal saving ratio fell by almost a quarter. In 1984, with the uncertainties caused by the long coal strike, consumers were more cautious and saving rose. During 1985 spending picked up again, particularly spending on durables which was some 7-8 per cent higher in the second half of 1985 than in the second half of 1984.

The combination of lower price inflation and little change in earnings growth, together with the Budget reduction in the standard rate of income tax and higher dividend income reflecting the buoyant profitability of the company sector, is expected to lead to substantial growth of real personal disposable income of about 5 per cent in 1986.

There may be some increase in the saving ratio, as consumers adjust to higher levels of income, but most of the rise in incomes should be reflected in higher spending, with continuing strength in purchases of durables. The accompanying chart shows recent and forecast changes in personal income and consumer spending.

Investment in dwellings by the personal sector fell between 1984 and 1985, but a resumption in growth is expected for 1986. Investment in housing improvements started to recover during 1985, and is expected to show further growth in 1986 as personal incomes rise. In spite of the increases in mortgage interest rates early in 1985, house prices remained firm; private housing starts which had fallen during 1984 were rising throughout 1985, and the total for the year was well above the number of completions. This trend in starts should show up in investment in new houses during 1986.

The demand for housing (as reflected in house prices) and spending on consumer durables have both been resilient in the last year or so, in spite of the high level of real interest rates. The personal sector has been responding to the financial liberalisation of recent years and the greater availability of credit as well as to changes in interest rates. Borrowing from banks and building societies by the personal sector increased by about 18 per cent in 1985, and by 20 per cent a year on average between 1980 and 1985. This borrowing has not only helped to finance current consumption and spending on tangible assets but has also been accompanied by substantial acquisition of financial assets: in fact the growth in the personal sector's financial assets has in recent years more than matched the growth in its liabilities, partly because of capital gains on holdings of equities and gilts.

Company income and expenditure: Company profitability has continued the recovery that began in 1981. The net real rate of return for all industrial and commercial companies (ICCs) for 1985 is estimated to have been the highest since 1960. For non-North Sea ICCs, profitability in 1985 was higher than any time since 1973.

The recent sharp fall in oil prices will mean a substantial reduction in North Sea profits in 1986, and the overall return earned by ICCs may fall. However, non-North Sea ICCs will be prime beneficiaries of the fall in oil prices, as they have been of the weakness of other commodity prices during 1985; their profitability is expected to increase further in 1986 (see accompanying chart).

Total business investment, including North Sea investment and investment by public corporations, grew by about 2 per cent in 1985. Within this total, manufacturing investment increased by about 6 per cent, after taking into account the increase in assets leased by manufacturing companies.

This was a somewhat smaller increase than intentions surveys had earlier suggested was likely. The path of investment during 1985 was greatly influenced by the reduction in capital allowances which became effective at the end of the first quarter of the year. Leasing business was particularly buoyant in the first quarter and fell back heavily thereafter.

1986 is likely to see a similar quarterly pattern. The level of business investment in 1986 as a whole will be affected by the transition to the reformed system of company taxation announced in the 1984 Budget: this gave firms an incentive to bring investment forward that would otherwise have taken place during 1986.

The fundamental prospects for business investment remain very favourable. Profitability has been rising strongly: one indication of the past and prospective recovery in profits is the buoyancy of the stock market. In addition, there is evidence from CBI surveys that an expansion of capacity will be needed in a number of industries.

The DTI survey published last December indicated an increase in manufacturing and service industries' investment of about 1 per cent, within which total manufacturing investment is expected to fall by about 2 per cent. By contrast the CBI interpret their most recent survey as implying a 5 per cent rise in manufacturing investment in the first three quarters of 1986 compared with the corresponding period of 1985. With the additional boost to profits of most companies from lower oil prices, a rise in business investment in 1986 of 5 per cent is forecast, rather more than suggested by the DTI survey.

The accompanying table provides details of the forecast for total investment and its major components. North Sea investment is expected to recover this year to a similar level to that in 1984, reflecting the development of new fields approved in 1985 and early 1986. Overall 1986 is expected to be a year of good growth in fixed investment.

Survey evidence suggests that despite the relatively low expenditure on stock building in 1985, most companies still regard their current stock levels as more than adequate in relation to output and sales. The fall in stock ratios in recent years may reflect in part cautious behaviour by companies after the last recession. Another factor has been the high cost of holding stocks as a result of the high level of real interest rates and the abolition of stock relief in the 1984 Budget.

Strong growth in exports has made an important contribution to GDP growth over the last two years. In 1985 the increase in manufactured exports was well above the estimated increase in UK export markets, while UK imports of manufactures grew less than usual in relation to the growth in demand.

The fall in oil prices has improved the prospects for world trade, and the adjustments of the exchange rate to lower oil prices has made British manufactures more competitive. As in most other industrial countries, higher domestic demand (stimulated by lower inflation) is expected to make an important contribution to growth in 1986, but exports should also show substantial growth (see the accompanying table). The slowdown forecast for export growth in the first half of 1987 reflects the path of North Sea oil output and hence oil exports.

Total domestic production is expected to increase by 3 per cent in 1986, following 3½ per cent growth in 1985. After allowance for the coal strike, growth is close to 2½ per cent in both years as shown in the accompanying table. The average level of oil production in 1986 is likely to be close to its level in 1985 and 1984, but the fall forecast for oil output between the first half of 1986 and the first half of 1987 may cut total GDP growth by about ½ per cent. Output growth in the non-oil economy in 1986 and the first half of 1987 is expected to be comparable to that seen in 1985. Manufacturing output has grown slightly faster than GDP since 1983. The composition of demand growth in the forecast suggests that growth in manufacturing output may continue at around the underlying rate of growth of GDP.

Productivity and the labour market: Total employment in Great Britain is estimated to have grown by about 220,000 over the year ending September 1985, giving a total increase since March 1983 of over 700,000.

The published figures show an increase of 12,000 in the number of employees in employment during the first nine months of 1985: a further rise in the number of employees in the service industries was largely offset by falls in the production and construction industries. Self employment is assumed to have risen by about 31,000 a quarter since the middle of 1984, the same as the estimated quarterly increase over the previous three years

This compares with an increase of about 68,000 a quarter recorded between the middle of 1983 and the middle of 1984. The estimates of growth in employment over the recent past shown in Table 3.11 are subject to revision when the Census of Employment for 1984 and the Labour Force Survey for 1985 become available.

Following upward revisions to the output estimates, output per head in manufacturing now appears to have risen by about 3¾ per cent in 1985, close to the annual average of 3½ per cent for the period 1979-85. This marks a major improvement on the productivity performance recorded between 1973 and 1979; the trend growth in productivity in manufacturing now appears to be close to the rate achieved during the 1960s (see the accompanying table). Non-manufacturing productivity has also been rising faster of late than in the 1973 to 1979 period. Growth in output per man hour has been rising at about 2 per cent per annum since 1979. However, the rise in part-time employment is currently bringing down growth in output per head in non-manufacturing, to about 1 per cent a year.

The increase in employment since 1983 has not so far prevented a continuing rise in unemployment, as growth in the labour force has been exceptionally large. However, the rise in unemployment has slowed down over the past year: the average increase in adult unemployment was about 5,000 a month over the 12 months to February.

Pay increases have generally been well above pay rises and well above the rise in pay in most other industrialised countries, thus contributing to the rise in unemployment in recent years. With output and employment continuing to grow, and growth in the labour force slowing down, the prospects for unemployment are better than they have been for some years. The accompanying table compares the main elements of the forecast published in the 1985 FSBR with outturn or latest estimate.

Inflation in the fourth quarter of 1985 turned out a little higher than forecast a year ago. The forecasts made at the time of the last Budget for output growth and the current balance in 1985, and for the PSBR in 1985-86, are all very close to the latest estimates for these variables. In each case such error as there appears to have been is considerably smaller than the average error from past forecasts. This year's forecast is summarised in an accompanying table.

No forecast is complete without an indication of error margins. The accompanying table sets out the average errors from past forecasts, alongside the forecasts themselves. These average errors provide an indication of possible errors in the current forecast.

Those items which represent the relatively small balance between large flows in either direction are particularly subject to error. For example, the flows on either side of the PSB, including the revenues of the public corporations, are about £200bn; and for the current account of the balance of payments exceed £150bn.

Completion of business tax reform

THE INLAND REVENUE issued the following statement on capital allowances after the Chancellor sat down:

The Chancellor proposes in his Budget a number of changes to capital allowances.

Two of these changes flow from reviews which have been announced previously and the third is essentially a series of technical consequentials following from changes to the capital allowances made in the 1984 and 1985 Finance Acts.

These measures represent the third and final stage of the programme of business tax reform the Chancellor launched in 1984 based on significant reductions in the rates of tax on company profits and the rephasing of capital allowances. From April 1986 the new system will generally be fully in place.

Agricultural Buildings Allowance: During the course of last year's Finance Bill debates, the Financial Secretary to the Treasury, the Rt Hon John Moore MP, announced that the rules governing this allowance, which is given on capital expenditure on the construction of agricultural buildings and works, were to be reviewed and that any changes would be introduced with effect from April 1 1986.

An important consequence of this review is the introduction of a system of balancing adjustments to operate, at the option of taxpayers, when an agricultural building etc is demolished, destroyed or sold. Balancing adjustments, which enable capital allowances to be brought into line with actual depreciation, should be especially helpful for short-lived agricultural buildings.

Mines and Oil Wells Capital Allowances (MOWA): In his Budget last year the Chancellor announced that the review of these allowances would be conducted against the background of the other changes in capital allowances, and that the proposals for MOWA would be published in a consultative document in the summer.

The consultative document was published on July 16 1985, and the Chancellor has confirmed today that the proposed changes to the MOWA code will be implemented in the 1986 Finance Bill, broadly on the lines of the proposals in the consultative document.

The main effect of the proposals is to simplify the present code and bring the mines and oil wells allowances more closely into line with the general system of capital allowances. As such, the proposals have been generally welcomed.

The main proposals are:

● The abolition of the present system of allowances (initial allowances and writing down allowances based on output and royalty value of output formulae).

● Their replacement by straightforward percentage based annual writing down allowances on a reducing balance basis at a rate of 25 per cent for qualifying expenditure other than that on mineral deposits or rights over them, for which a rate of 10 per cent is proposed.

● *Relief* to start when the expenditure is incurred, provided a mining trade has begun and not, as at present, only when the working of or output from, the source has begun.

● The abolition of relief for land.

Allowances for leased machinery and plant and certain motor vehicles: The special rules in the 1980 and 1982 Finance Acts dealing with the allowances due on capital expenditure on leased machinery or plant generally, on machinery or plant leased overseas and on motor vehicles costing £8,000 or less involving separate pooling arrangements, are to be amended.

These are primarily technical measures to ensure that with one exception the arrangements continue to operate where appropriate in broadly the *same way from April 1986* as before. The exception is that the separate pooling arrangements for *certain assets* leased in the United Kingdom will no longer apply.

Accrued Income Scheme alterations

THE INLAND Revenue issued the following statement on the accrued income scheme.

The Accrued Income Scheme came into effect on February 28 1986. It is a completely new way of taxing income on many securities when they are bought and sold.

The Chancellor proposes in *his Budget* that securities covered by the Accrued Income Scheme (AIS) should be taken *out of the scope of the* anti-bondwashing legislation which preceded the new scheme. That legislation will, however, continue to apply to equities and preference shares (which are not within the AIS).

The new proposals are:

● To restrict Sections 471-475 Income and Corporation Taxes Act 1970 to securities not within the AIS. This change will take effect from March 18 1986;

● That Section 469 Income and Corporation Taxes Act 1970 (sale and repurchase transactions) will be treated as never having applied to Eurobonds or overseas Government securities denominated in foreign currency provided that both parties to the transaction are dealers in securities (as announced by the Economic Secretary on December 13 1985—see Press Release dated December 13 1985); and

● That Section 469 will be further cut back as from a future date so that it too applies only to securities not within the AIS.

The Finance Bill will also make some technical amendments to the Accrued Income Scheme.

Revision of tax rules for Stock Exchange

AFTER THE Chancellor sat down the Inland Revenue issued this statement on changes in the securities markets—tax changes affecting members of the Stock Exchange and other recognised investment exchanges:

In his Budget the Chancellor proposes to revise the special tax rules which apply to Stock Exchange members. The purpose of the changes is to ensure that the special tax arrangements which are necessary for the effective operation of the financial markets will continue to apply to the Stock Exchange after the October 1986 Stock Exchange reforms. In addition, there will be provision for similar treatment to be given to members of other Recognised Investment Exchanges which are established in 1987 after the passage of the Financial Services Bill.

Stock Exchange Market-Makers. The existing statutory rules for jobbers will apply to recognised market-makers after the October 1986 Stock Exchange reforms. This will apply to:

● *Exemption from the anti-avoidance (bondwashing) provisions* of Section 472 ICTA 1970;

● Exemption from the rules relating to manufactured dividends (Section 477 ICTA 1970);

● Capital Transfer Tax—availability of business relief and interest-free instalments (Sections 105 and 234 Capital Transfer Tax Act 1984).

Market-Makers on other Recognised Investment Exchanges (RIEs). There will be provision for these special rules to apply to recognised market-makers who are members of other RIEs when the regulatory framework for these has been established, after the passage of the Financial Services Bill.

Members of Stock Exchange and other RIEs who are not Market-Makers. There will also be provision for the special rules on manufactured dividends (Section 477 ICTA) and the CTT business reliefs to be applied, where appropriate, to members of the Stock Exchange and other RIEs who are not recognised market-makers.

Stock Lending and Borrowing. There will be provision for the Extra Statutory Concession, which gives exemption from income tax and capital gains tax charges on stock lending and borrowing, to be put on a statutory basis. In the meantime, the Extra Statutory Concession will continue to apply, and will be available to Stock Exchange market-makers on the same basis as jobbers.

Other Changes. The rules for charging tax on manufactured dividends (Section 477 ICTA) will be revised to guard against abuse. These changes will be effective from Budget Day.

Stamp Duty changes in relation to changes in the securities markets are dealt with in a separate press release.

Mines and wells allowances to change

AFTER THE Chancellor's speech, the Inland Revenue issued the following statement on Mines and Oil Wells Capital Allowances:

The Chancellor has confirmed today that the proposed changes to the Mines and Oil Wells Allowances (MOWA) code will be implemented in the *1986 Finance Bill, broadly* on the lines of the proposals in the MOWA Consultative Document, which was published on July 16 1985.

The main effect of the proposals is to bring the mines and oil wells allowances more closely into line with the general system of capital allowances, following the changes made in the 1984 and 1985 Finance Acts, and to simplify another complex area of the tax system. As such, the proposals have been generally welcomed. The main proposals are:

● The abolition of the present *system of allowances* (initial allowances and writing-down allowances based on output and royalty value of output formulae).

● Their replacement by straightforward percentage-based annual writing-down allowances on a *reducing* balance basis.

● The proposed rate of allowance is 25 per cent for qualifying expenditure other than that on the acquisition of minerals or rights over them for which a rate of 10 per cent is proposed;

● Relief is to start generally when the expenditure is incurred, provided a mineral extraction trade has begun.

● The abolition of relief for land.

● It is no longer proposed to withdraw the industrial buildings allowance (IBA) for certain buildings constructed for *occupation by, or for the welfare of,* employees in the mining industry.

● The new MOWA code will also cover expenditure on searching for, testing or developing a source of geothermal energy.

The proposals will, in general, apply to expenditure incurred after March 31 1986, including the proposed restriction of the secondhand purchaser's costs of a UK mineral asset to the vendor's expenditure where less than his own payment. They will also apply to any residue of expenditure incurred before that *date* for which the *full* amount of relief has not yet been given under the present system.

Taxpayers will, however, have the option for one year to claim the old *system initial allowances* provided the expenditure is under a contract which they entered into before the date of publication of the consultative document, namely July 16 1985.

Overall the proposals are rather more generous than the present system, and their cost in 1987-88 is estimated to be £45m.

New rules on pension scheme actuarial surpluses

AFTER the Chancellor sat down the Inland Revenue issued the following statement on pension scheme surpluses:

The Chancellor proposes in his Budget new *rules* for dealing with actuarial surpluses in occupational pension schemes. The proposed changes are in response to recent concern on two points:

● That current Inland Revenue practice leaves many scheme trustees uncertain about the options open to them in reducing surpluses, particularly if they wish to make a refund to the employer.

● That some pension schemes may at present be excessively over-funded.

The Chancellor's proposals are based on the following principles:

● The rules for *dealing* with surpluses should be published, clear and objective.

● The *rules* must *enable* the trustees of a pension scheme to maintain a fund fully sufficient to meet, on a properly costed and prudent basis, the scheme's accrued pension liabilities — together with a reasonably adequate margin for contingencies. This must always be the first consideration.

● On the other hand, the rules should not make it possible for trustees to build up, with the benefit of generous tax reliefs, funds which are greatly in excess of the scheme's accrued liabilities.

● When it emerges that an undue surplus has accumulated, trustees should be required to take early steps to reduce it to a reasonable level.

● It is a matter for the trustees to decide how that surplus should be reduced. This may often be by increases in benefits or by contribution reductions or holidays.

● Inland Revenue rules should not however prevent the refund of a surplus to the employer, when the trustees consider this desirable or necessary: for example where a refund may avert a cash flow crisis for the employer, and facilitate new investment or expansion, with consequent benefit for output and employment. But the regime should not provide a tax incentive for over funding.

The proposed new rules will take the following form:

In future, when trustees of self-administered pension schemes submit actuarial valuations to the Inland Revenue's Superannuation Funds Office (SFO) they will also be required to submit a valuation of the scheme's assets and liabilities on a *prescribed* and objective basis (for an actuarial certificate stating that, on this prescribed basis, any surplus in the scheme is not excessive).

This basis, which will incorporate a funding method and actuarial assumptions advised by the Government Actuary, will apply for these limited purposes only. There is no intention of imposing general actuarial requirements for other purposes.

The prescribed funding method will be the "Projected Unit Credit" basis. The actuarial assumptions will be broadly in line with those used by the Government Actuary for State pension purposes.

If it appears, on this basis, that a pension scheme's assets exceed its liabilities by more than 5 per cent, the trustee will be required to reduce that surplus to a figure not exceeding 5 per cent.

The options open to the trustees will include: increases in pension benefits (within existing limits); a reduction or complete suspension of contributions to the scheme by the employer (and/or employees) for up to five years; a refund to the employer; any combination of these.

No refund will be permitted which would reduce a surplus to less than 5 per cent.

Any employer which accepts a refund from its pension scheme will be subject to a free-standing charge to corporation tax or income tax (as appropriate) at a special rate of 40 per cent designed broadly to recover the tax relief previously given. It will not be possible to reduce this liability by any *set-off whatsoever*, eg for losses, capital allowances, charges, management expenses, ACT or any other such relief which might otherwise be available. As a matter of mechanics, the tax will be deducted at source by the trustees from the amount refunded and paid to the Revenue.

Enabling legislation will be included in this year's Finance Bill. The detailed rules will be contained in regulations to be laid later in the year and will come into force on April 6 1987.

The new 40 per cent charge will come into effect in respect of refunds made after today unless they are covered by the exception referred to below.

There will be transitional provisions on the following lines:

● No scheme will be required to make a refund calculated on the prescribed basis before 6 April 1987. But any application for a voluntary refund before that date will have to be supported by an actuarial valuation on the new basis, following provisional guidelines to be issued shortly.

● Applications for refunds already received by the Superannuation Funds Office in relation to valuations already undertaken will be dealt with under existing practice and any refund permitted will not be subject to the tax charge.

It is not intended that these proposals should apply to public service schemes.

Queen to get £160,600 rise from Civil List

THE QUEEN is to get a £160,600 increase in the Civil List, the annual government payment to cover the Royal *family's* expenses.

The overall rise for the 11 royal households will be 4 per cent.

The Queen will receive £4.14m over the next financial year, but about 75 per cent of the Civil List allowances go on staff salaries and household expenses.

The total Civil List will increase to £5.39m compared with £5.18m last year.

The Queen will repay to the Treasury from her private funds £355,600 to cover the expenses of the Duke of Gloucester, the Duke of Kent and Princess Alexandra.

Provisions changed in transfers of trade

THE INLAND REVENUE issued the following statement on company reconstructions—restriction of relief.

The Chancellor proposes to restrict the tax losses which are available when a trade is transferred from one company to another in common ownership. From tomorrow the successor company will not have the benefit of all the predecessor's unused tax losses if that company is insolvent at the time of the transfer.

When a trade is transferred from one company to another in common ownership there is a provision (Section 252 of the Taxes Act 1970) which enables the tax losses of that trade to be transferred with it and to be set off against future profits of the same trade. If however, the company *transferring the trade is insolvent*, then those losses may to some extent represent debts which will never be paid and so will in effect be borne not by the company but by its creditors (who may themselves be entitled to tax relief for their bad debts).

The Chancellor's proposal will reduce the successor company's entitlement to the tax losses to the extent that it does not take over the previous company's liabilities and the old company does not have enough assets to pay them in full.

It is expected that the revenue saved by this provision will build up over the next few years to some £50m annually.

CENTRAL GOVERNMENT TRANSACTIONS

	1985-86 Latest estimate	£bn 1986-87 Forecasts
Receipts		
Taxes and royalties	99.4	102.0
National insurance and other contributions	24.3	26.2
Other	9.9	10.2
Total receipts	133.6	138.4
Current expenditure on goods and services	46.4	49.1
Current grants and subsidies	71.6	74.3
Interest	16.1	17.0
Net lending and capital expenditure, excluding on-lending to local authorities and public corporations	4.4	2.3
Total expenditure	138.5	142.7*

* Excluding any allocation from the expenditure Reserve.

One aim on charities is to encourage more giving

The Inland Revenue issued this statement on charities after the Chancellor sat down:

The Chancellor proposes in *his Budget* measures which have the twin objectives of:

● Providing further support and encouragement for charitable giving: by introducing relief for single donations by companies (other than close companies); abolishing the £10,000 limit on higher rate relief for covenanted donations by individuals; introducing a new scheme for relief for donations under "payroll giving" schemes.

● Ensuring that the money is actually spent for genuinely charitable *purposes*.

New reliefs

Three new types of tax relief *are proposed:*

Donations by companies: Companies (other than close companies) will from April 1 1986 for the first time be able to claim tax relief for one-off gifts to charity—broadly in the same way as they can now claim relief for gifts by way of a four-year covenant. In order for them to qualify for relief, they should deduct income tax at the basic rate from the gifts at the time of payment, in the same way as they deduct tax from a covenant payment under existing arrangements. The relief will be on gifts up to a maximum equal to 3 per cent of the ordinary dividends paid by the company.

Higher rate relief: In order to encourage charitable giving by other companies and individuals, the Government will remove the present annual limit of £10,000 on the amount of charitable giving through deeds of covenant for which an individual taxpayer may claim higher rate relief. In consequence, the present rules for apportioning the value of charitable covenants paid by close companies will not in *practice affect* cases where the money is applied for charitable purposes consistently with the *new* rules in paragraphs 11 to 16 below.

Payroll deduction schemes: There will be a new scheme from April 1987 to encourage individuals to make donations to charity through deductions from their wages and salaries. The scheme will be operated by employers, through charity agencies. It will be entirely open to employers whether or not to launch schemes, and employees will be free to decide whether they wish to participate. Employees of participating firms will be able to get tax relief on donations of up to £100 a year. Before the scheme is finalised, the Government will want to have talks with employers' representatives and charity organisations about the administrative arrangements; but it is envisaged that they will be on the following lines:

● An employer, having decided to participate, will arrange with an approved agency charity to operate a scheme.

● Those employees who wish to take advantage of the relief authorise the employer to deduct their donations from their pay.

● The employer gives relief under a "net pay" arrangement, similar to the arrangements for relief for superannuation contributions; ie the donations are deducted from pay before PAYE is applied.

● The employer pays the donations over to the charity agency which acts as a "clearing house" and distributes the money to the individual charities to which the donations are to go.

Some companies are already making one-off donations without the benefit of tax relief and they will now be able to pass that relief on to the charities. The Government believes, however, that both companies and individuals will be encouraged to increase their charitable giving by these three new reliefs. Depending on the response to these proposals it is estimated that tax receipts in 1987-88 will be reduced by about £60m.

There will be no change in the existing arrangements for relief for four-year charitable covenants, which will remain available for all companies and individuals, under the normal rules.

Safeguards: It has become increasingly clear that the present rules for charitable relief are being abused. Some individual avoidance schemes can involve sums of several million pounds each. The Government think that this abuse, if left unchecked, could prejudice the selfless and dedicated work of the vast majority *of* genuine charities and their supporters.

Forms of abuse: One form of device—which includes the so-called "company purchase scheme" — involves using charitable relief to strip a cash-rich company of its accumulated profits without incurring a tax liability. The benefits accrue mainly to the company shareholders and the scheme operators, though the charity will commonly retain a small "commission."

In other cases the benefit of charitable "gifts" will, after collecting tax relief, be channelled back to the "donor," through a more or less long chain of intermediary charities and/or companies (which may frequently be non-resident). Or the bulk of the money will simply be left accumulating and not spent on any charitable purpose.

Some of these devices rely, to a large extent, on otherwise taxable profits being stripped out of a company—and sometimes out of the courts' jurisdiction—before any legal challenge can be mounted. To prevent this, the Chancellor proposes that payments made after today under a charitable deed of covenant should in all cases (including payments within a group of companies) be made under deduction of tax if they are to qualify for relief. There are well tried arrangements for prompt repayment of the tax to charities, and these will continue.

Beyond that, the Government sees no need to change the present rules affecting the vast majority of charities which are either:

● "Public"—that is, at least 75 per cent funded by public donations and/or public sector grants; or

● "Direct"—that is, spending at least 75 per cent of their receipts on charitable activities of their own, as distinct from grants to other charities.

There will, however, be new rules for a class of "private indirect charities" — which do not meet the conditions *either* at (a) *or* at (b) above. *These* charities will continue to enjoy tax reliefs to the extent that their *income* and *gains* are actually spent on charitable purposes, that is:

● Charitable activities of their own;

● Grants to other UK charities which are not themselves "private indirect charities";

● Administrative expenses attributable to these activities.

Annuities, interest and other yearly payments to be tax deductible

AFTER the Chancellor sat down the Inland Revenue issued the following statement on the reduction in basic rate of income tax:

The Chancellor proposes in his Budget to reduce the basic rate of income tax for 1986-87 from 30 per cent to 29 per cent. The reduction will take effect from April 6 1986. The following notes give guidance about:

● Deduction of income tax from annuities, interest and other annual payments.

● The effect on deeds of covenant.

● Advance corporation tax and tax credit on dividends.

● The construction industry tax deduction scheme.

● The additional rate on trusts.

Composite rate: These notes do not apply to interest paid to individuals by building societies, banks, local authorities and other deposit-takers within the Composite Rate Scheme. *The* composite rate has been fixed at 25.25 per cent for 1986-87.

***Deduction of Income Tax* from annuities, interest, etc:** The Chancellor of the Exchequer announced in his Budget speech that the basic rate of income tax to be imposed for the year commencing April 6, 1986, will be 29 per cent. A resolution to this effect will be placed before the House of Commons within the next few days and if passed will have statutory effect under the Provisional Collection of Taxes Act 1968.

Where there is a right or an obligation to deduct tax at the *basic* rate from the payment of annuities or other annual payments (including alimony), interest, royalties etc, the rate at which tax deductions should be made after April 5 1986 *will be the new* rate. This will also apply to the new provisions for one-off gifts to charities by *non-close* companies. But, in the case of interest on securities of bodies corporate in the UK, *including local authorities*, deductions at the old rate of 30 per cent will be deemed to be legal deductions for a period of one month from the date of the passing of the appropriate Resolution, subject to adjustments later to give effect to the new rate for the year.

Where payments have been made on or after April 6 1986 from which tax has been deducted at the rate of 30 per cent the over-deduction will be adjusted as follows:

● **Interest on United Kingdom Government Securities and foreign dividends paid in the United Kingdom:** HM Inspector of Taxes, on application by the recipient, will either repay the excess tax deducted or make an appropriate allowance against some subsequent tax assessment. Applicants for repayment will need to furnish evidence (normally counterfoils obtainable from the paying agents or bankers) showing that they have suffered deductions of the amounts claimed.

● **Annuities, annual payments *(including alimony)*, royalties etc and other types of yearly interest (including those *received from companies* or local authorities):** It will be the payer's responsibility to repay or make good to the recipient the amount of any excessive deduction of tax made by reference to the earlier rate of 30 per cent. This will usually be done at the time of the next payment of a similar nature. Where a company or local authority security has been sold since an over-deduction of tax at 30 per cent the person entitled to the security at the time the over-deduction is made good will be entitled to the benefit of the adjusting payment.

This notice refers only very broadly to the effect of the change of the basic rate for 1986-87 on the deduction of tax provisions. The Inland Revenue will shortly be issuing a Circular (Deduction of Income Tax from Interest etc—1986-87) setting out in more detail for payers and recipients the full *implications in relation to each* of the different types of payment which are subject to the deduction of income tax at source. Copies of this Circular will be obtainable from the Office of any Inspector of Taxes.

Effect on Deeds of Covenant: The reduction in basic rate will alter the amount of tax to be deducted at source from payments due, from April 6 1986 onwards, under deeds of covenant. The precise result will depend on whether the covenant is expressed in "gross" or "net" terms.

Under a gross covenant, the covenantor undertakes to pay (for example) £100 a year less tax. At present, with a 30 per cent basic rate of tax, he deducts £30 tax and pays the recipient £70. The recipient may be able to reclaim all or part of the £30 tax from the Inland Revenue, *depending* on his or *her* personal circumstances.

The reduction of basic rate *for 1986-87 means that the payer* should deduct tax at 29 per cent instead of 30 per cent from payments due on or after April 6 1986. Thus in the example above, the payer should deduct £29 tax *and* pay the *recipient* £71. Because the covenant is a legally binding deed, he will have a legal obligation to increase the net payment to £71. If his payments are made by standing order, he will need to change his standing order accordingly.

If the covenant is in favour of a charity, the payer may be entitled to relief at the higher rates of tax for the gross amount (in the example, £100).

Under a "net" covenant, the amount to be paid is fixed in net-of-tax terms. For example, the convenantor undertakes to pay each year such sum as will leave £70 after deducting tax at the basic rate for the year.

At present the £70 net represents £100 *gross* less £30 tax. The reduction in basic rate means that, for payments due on or *after April 6 1986*, the £70 net will represent £98.59 gross less £28.59 tax (ie tax at 29 *per* cent on £98.59).

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THE BUDGET: Details

Business expansion scheme made more effective

AFTER the Chancellor sat down the Inland Revenue issued a statement on the Business Expansion Scheme:

The Chancellor proposes in his Budget to extend the life of the BES indefinitely (it was due to expire in 1987). There will be some changes to make it more effective.

- New BES shares will be exempt from CGT.
- The coverage of BES is being changed to exclude companies engaged in holding goods of a kind which are collected as investments (eg fine wines and antiques).
- Ship chartering of UK registered ships will in future be allowed.
- Companies with high asset backing in terms of land and buildings will be ineligible for BES except for the first £50,000 of share capital issued in a year.
- A number of detailed changes are also being made.

The latest figures for BES investment in 1984-85 show that 688 companies raised a total of £136m (the final figure will be higher).

The Chancellor intends to build on the success of BES. From its origins in 1981 as the Business Start Up Scheme, BES was introduced in 1983 with a four year life, coming to an end with the tax year 1986-87. It is now to continue indefinitely. Experience of the present scheme shows that there is a need for it to be more closely targeted, and the following improvements to it are being made.

Capital gains tax treatments of BES shares

BES shares issued after March 18 1986 will be exempt from CGT on their first disposal. The exemption will not run if the BES relief has been withdrawn from the shareholders.

BES and risk

The Government's intention has always been that the scheme should encourage investment in unquoted companies carrying out more risky activities. The Peats report has cast doubt on the extent to which the scheme is now fully meeting this purpose and the Chancellor intends to take further steps to ensure that the scheme is more closely targeted.

BES relief will not be available for wholesalers or retailers trading in goods of a kind which are collected or held as investments if the company does not actively try to sell them. Examples of the trades which may be excluded by these changes if the company does not trade actively are fine wines and antiques. The relief will also not be available in respect of wholesale trades which do not sell their goods to retailers. These changes will affect shares issued from today.

At the same time, companies involved in ship chartering will come within the scheme. For shares issued after today, ship chartering will be a qualifying trade provided that the company's ships are all UK registered and are owned, navigated and managed by it. Furthermore, the charters must not be for a period exceeding one year. In due course, the Inland Revenue will issue a statement of practice about the application to ship chartering of the BES requirement that a trade must be carried on wholly or mainly in the UK.

The Finance Bill will include a power to make further changes amending the definition of qualifying trade by statutory instrument.

Land and buildings

The scheme is not intended for companies with a very secure asset backing. Accordingly, shares issued from today will not qualify for BES relief if at any time before the end of the relevant period the three years after the issue of the shares or, if later, three years after the company starts to trade) the value of the company's land and buildings, after deducting certain liabilities, exceeds one half of the net value of the company's assets after deducting its liabilities.

This restriction on the eligibility of shares for BES relief will not apply to the first £50,000 of share capital raised by a company after today in any 12 months.

The existing exclusions of farming and property development will not be needed now that this restriction is being introduced. They will be repealed for shares issued after today.

There will be a number of changes (taking effect from tomorrow) concerning the extent to which parent companies of a group will be eligible under the Scheme.

- The company will be able to have tiers of subsidiaries.
- The subsidiaries will have to be at least 90 per cent owned.
- The subsidiaries may be resident or incorporated overseas provided that the trading activities of the group as a whole are carried on wholly or mainly in the UK.
- It will be possible to dispose of a subsidiary; or have a dormant subsidiary, or have a subsidiary holding property used by members of the group or carrying on research and development.

There will also be a series of other detailed changes.

Restrictions where an individual has a controlling interest in both a BES company and a similar trade are to be simplified (for shares issued after today).

Loans made by a BES company and repaid before the BES share issue will no longer remove entitlement to relief (for shares issued from today).

There will be changes in the treatment of rights issues for both BES and CGT (for rights issues from today).

Payments received for the grant of an option to buy BES shares will cause the loss of the appropriate amount of relief. The acquisition of an option to sell BES shares will cause the loss of BES relief. (These changes apply to options granted or obtained from today.)

Crown employees serving overseas (whose salary is taxed in the UK) will be eligible for BES relief (from April 6 1986).

Joint subscription by two individuals will be eligible for relief (for shares issued from today).

Companies will be given the right of appeal against a refusal by the Revenue to approve them under the scheme.

Call options

Doubt has been expressed about the effect of granting the proprietor of a company an option to buy the shares. In the view of the Inland Revenue relief will not be withdrawn because of the presence of a call option of this nature provided the shareholder would receive the full market value of the shares at the time the option is exercised.

Peat Marwick report

Small companies brought into investment net

BY WILLIAM DAWKINS

THE Business Expansion Scheme has been dramatically successful in stimulating small company activity but it needed to overcome serious problems, according to a 252-page report on the scheme published yesterday. The study, by Peat Marwick, the accountancy firm, and commissioned by the Inland Revenue, concentrates on 1983-84, the scheme's first year. It warns that since then the trend "appears to have been towards larger and perhaps less risky investments . . . As these less risky investment opportunities become more evident there may be pressure on all BES investment media to provide similar tax-driven opportunities, perhaps to the detriment of the spirit of the scheme."

TWO-THIRDS of the companies funded under the Business Expansion Scheme could not have raised equity from any other source, says the Peat Marwick report.

This was partly because "the scheme has lowered the margin at which companies are considered of acceptable quality to merit outside investments," says the report.

Moreover, the scheme has contributed to a reduction in the cost of capital for some kinds of venture (particularly good quality medium-sized businesses with asset backing) and to an improvement in small businessmen's awareness of the value of equity financing.

All this, says the report, has helped the BES to make an impact on the so-called equity gap, the level below which financial institutions find it uneconomic to handle investments, usually set at about £100,000.

More than a third of the 120 companies surveyed by Peat Marwick raised under £50,000 in 1983-84, even though the sample is deliberately biased towards companies raising larger sums so as to produce results more in line with the scheme's performance in later years. Of the £28.1m raised by the sample, 42 per cent was used for refinancing companies with cash crises and to provide working capital, while 31 per cent was used to buy assets in the form of existing businesses, including management buy-outs.

However, the report says the BES is not a significant source of seedcorn capital, as some of its supporters had hoped it would be. Only three of the 43 companies to have raised less than £50,000 were planning new ventures.

The risks involved in unquoted investment are underlined by the fact that 17 per cent of the company sample had gone out of business 18 months after raising finance and another 10 per cent are given a poor chance of survival by Peat Marwick. However, the firm says another 16 per cent of the sample have strong growth prospects, suggesting that the balance of risk and reward offered by the BES is not out of line with that of the rest of the venture capital industry.

Using what it admits is a subjective rating, Peat Marwick maintains that 14 per cent of BES finance raised by the companies surveyed went to high risk ventures, 27 per cent to medium risk ones and 59 per cent to low risk concerns.

The BES has been of most help to companies less than five years old, especially those with poor profits, unproven management and no assets. Eighty per cent of the 46 young ventures surveyed claimed they could not have raised equity anywhere else, compared with only four of the nine management buy-outs in the study.

Among the most frequently cited advantages of raising BES finance was the absence of annual interest and capital repayments, a "breathing space" from pressure from outside investors thanks to the fact that BES investors cannot sell for five years on pain of losing tax relief, and advantageous terms.

"It was considered that, principally because of the tax relief, investors were less likely to drive a hard bargain in terms of the percentage of equity required for a given amount of finance," says the report. Some companies also felt they could get a better deal from funds by waiting until the end of the year because funds cannot offer full tax relief for the year unless they are fully invested. Two thirds of the 1983-84 investment received by the sample came in the final quarter of the tax period.

But the survey also confirms significant disadvantages for companies raising BES finance. Raising a second round of funds under the scheme can create complications, for instance. This lengthens the proper period before which first round investors are permitted to sell. Non-BES backers, meanwhile, were said to be unwilling to provide cash because they would have to observe rules forbidding mergers, flotations or the establishment of overseas subsidiaries unless original investors could be persuaded to abandon tax relief.

Peat Marwick also mentions two cases among its sample of companies forced into liquidation because BES rules prevented them forming joint ventures, a move that would have led to loss of tax relief for investors.

The Peat Marwick Report on the Business Expansion Scheme, from Reference Room, New Wing, Somerset House, London WC2R 1LB, £22.50.

Tax relief is the chief attraction for financial backers

TAX RELIEF is the Business Expansion Scheme's chief attraction for investors, with the prospect of making a big capital gain a low priority for most.

Nearly three-quarters of the 279 respondents to a questionnaire from Peat Marwick said tax relief was their main reason for investing, while just over a tenth cited the potential for capital appreciation.

Even if investors' motivation appears to have little to do with risk, 94 per cent of the cash they invested in the BES in 1983-84 would not have gone into those companies were it not for the scheme, says Peat Marwick. In the absence of the BES, 53 per cent would not have been invested in unquoted companies and 73 per cent would not have gone into equities in general.

If the survey results are extrapolated to all BES investment in that year—£105m into 715 companies—the implication is that £99m of it is genuinely new investment for those ventures. "The BES has had a significant catalytic role in stimulating investors' interest in investment in the unquoted company sector," says the report, which adds that only 21 per cent of those interviewed had previously put money into private businesses.

Once attracted to the BES, a majority of investors stay hooked. The study shows that 57 per cent of the questionnaire respondents came back for more in 1984-85 after investing in the scheme's first year.

They are almost equally split in their preferences for investing via direct offers whereby companies issue prospectuses to the public or stage private share placings; through funds which offer a spread of companies; or through a mixture of the two. Of the respondents, 38 per cent made only direct investments in 1983-84, 29 per cent stuck with funds alone and 33 per cent tried both.

Most of those who chose the mixed approach were top-rate taxpayers and 42 per cent of them put more than £10,000 into the scheme that year. But overall, nearly half of direct investors put in less than £5,000 each.

Scheme investors emerge from the study as rich—three-quarters of them were upper-rate taxpayers—well versed in investing in listed Stock Exchange companies but unfamiliar with venture capital. For most, BES investments represented less than 5 per cent of their total financial assets.

When they did take investment rather than tax criteria into consideration, the level of asset-backing available came top of the list. Detailed interviews with 75 investors showed that 33 per cent mentioned asset backing as the prime measure of risk, with products and company track record coming joint second with 24 per cent each.

Investors showed a stronger commitment to direct investments than funds in the scheme's second year, says Peat Marwick. This, it says, is partly because prospectus issues were becoming more widely available, so making it easier for people to pick their own portfolios.

A quarter of interviewees were unhappy with their fund investments because they felt, among other things, that they could make better choices themselves

Scheme takes on unexpected role as 'a prolific creator of jobs'

EVEN THOUGH the Business Expansion Scheme was not introduced as an employment measure, it emerges from the Peat Marwick report as a prolific creator of jobs.

The 120 companies surveyed generated between them £22m of extra turnover and 870 additional jobs, a year after raising BES finance in 1983-84. This is projected to rise to about £38m of sales and 1,000 new jobs during the following two years to April 1987.

The same businesses cost the Inland Revenue about £13.5m in tax relief for the £27m they raised (that assumes their investors had an average marginal tax rate of 50 per cent), which comes out at a crude cost a job of about £12,400.

The same arithmetic applied to most of the 715 companies which received money under the scheme in 1983-84 produces 4,000 jobs at between £8,000 and £13,000 a head a year later. That compares with the £40,000 average cost per job of the Government's regional aid policies in the early 1980s, a comparison not included in the report.

Peat Marwick adds, however, that its cost-per-job estimate is probably too low because it excludes the tax cost of investment in the nine farming companies which raised £18m in 1983-84. The report does not deal with the effect on job creation costs of the £50m or so believed to have been raised by property developers before they were thrown out of the scheme in the 1985 Budget.

Peat Marwick also points out its figures do not take into account complications such as the extra tax claimed back from businesses and their staff thanks to the growth cultivated through BES investments or the extent to which the jobs they provide are really new or just displacing employment elsewhere.

Peat Marwick estimates that more than half of the jobs in the companies it surveyed were saved rather than created. That includes jobs in a quarter of the companies studied which would have gone into liquidation without BES finance, with a knock-on effect on their creditors.

"The difficult assessment is whether these companies have merely been given a stay of execution or whether the finance raised gives them the opportunity to become successful companies," says the report.

In 70 per cent of cases, BES businesses were operating in expanding markets, where the likelihood of putting others out of work thanks to BES help was remote. The remaining 30 per cent, however, were in more competitive markets. "Their success depended largely on increasing market share at the expense of competitors," a finding which will add fuel to criticisms by opponents of the BES that it introduces unwarranted distortions into the economy.

The cost per job of the BES varies according to the amount raised. Companies looking for less than £50,000 cost the Government £2,000 a year per job created, after investment, while ventures looking for more than £1m (which includes most of the heavily asset-backed proposals) produced jobs for £31,000. There is no great difference in job creation costs between sectors, except in property. The three extra jobs created by the six property companies in the survey cost the Inland Revenue £344,000 each a year

VAT registration limit up £1,000

AFTER the Chancellor's speech Customs and Excise issued the following statement:

In his Budget statement the Chancellor announced changes in the limits for VAT registration and cancellation of registration. Details are as follows:

Registration: The registration limit was increased from £19,500 per annum to £20,500 per annum from midnight last night. A single quarterly registration limit of £7,000 applies from the same time.

Cancellation of Registration: The limit will be increased from £18,500 per annum to £19,500 per annum (inclusive of VAT) from June 1 1986 for persons considering cancellation of their registration on the basis of their expected future turnover.

Persons will also be able to apply for cancellation of their registration after June 1 1986 if they have been registered for two years and their turnover (inclusive of VAT) in each of those years has not exceeded £20,500 and provided they do not expect their turnover to exceed £20,500 in the year.

It is estimated that 17,000 persons will be eligible to request cancellation of their registration as a consequence of these changes.

The changes will have a negligible effect on VAT revenue.

Public Notice: Details of the changes in the registration and cancellation limits are contained in Customs and Excise Notice BN 1/86 copies of which will be available at all local VAT offices.

Reliefs for handicapped people and charities: From April 1 1986 VAT zero-rating will extend to:

- Any sound recording equipment used by charities caring for the blind and to cassette recorders for free loan by such charities to the blind.
- Vertical lifts and distress alarm systems supplied to a handicapped person for use in his home or to a charity caring for the handicapped.
- Non-classified advertising placed by a charity in a newspaper, periodical or magazine for educational or fund-raising purposes.
- Video and refrigeration equipment supplied to an eligible body, for use in medical treatment, diagnosis or research.
- Medicinal products supplied to a charity engaged in the treatment or care of human patients or animals or in medical research.
- Welfare vehicles supplied to an eligible body caring for the blind, deaf or mentally handicapped for use in transporting those persons.

The reliefs are contained in the Value-Added Tax (Handicapped Persons and Charities) Order 1986 laid before parliament yesterday.

The order also gives legislative effect to two existing extra-statutory concessions. One concession extended the zero-rate for building alterations within the private residence of a handicapped person to cover the provision, adaptation or extension of any bathroom, washroom or lavatory which is necessary by reason of his condition. The other extended the zero-rate for the services of adapting goods to suit the needs of a handicapped person to cover the adaptation of goods prior to their initial supply to a handicapped person or to a charity.

Disaggregation: The Government proposes to legislate this year to combat avoidance of VAT through disaggregation—the artificial splitting of a single business to avoid registration and tax.

The proposed measure will enable Customs and Excise to seek a power to direct in certain circumstances that where two or more persons are purporting to trade separately, but in reality are part of a single business, they shall be treated as a single business for VAT registration purposes. Any taxpayer who receives such a direction but believes that the Customs and Excise have issued it unreasonably will have the right of appeal to an independent VAT tribunal. Full details will be set out in the Finance Bill which will be published next month.

It is estimated that the change will have no significant revenue effect in 1986-87 but will increase revenue by about £20m in 1987-88.

VAT on imports: Transfer of relief: The chancellor announced a change in the VAT law to permit the transfer to a person, other than the original importer, of relief at importation granted for certain final importations and for a range of temporary importations. Relief is at present available under the Value-Added Tax (Imported Goods) Relief Order 1984 (SI 1984 No 746) and the Value-Added Tax (Temporarily Imported Goods) Relief Order 1985 (SI 1985 No 1646) but these orders do not contain provisions to allow for the transfer of relief from the original importer. A new order will be made which will permit such a transfer.

VAT on exports: Mr Lawson also announced an amendment to the VAT law to allow regulations to be made prescribing conditions which must be satisfied for the zero-rating of certain exports.

Hotel accommodation and holiday services: Treasury Ministers are to propose a number of changes in the application of VAT to hotel etc accommodation and holiday services. The first three affect supplies by hotels and similar establishments in the UK while the fourth relates to supplies by UK-based tour operators. The changes are:

- In the main only lettings of bedroom accommodation will be taxable; other lettings of accommodation in hotels or similar establishments will become exempt.
- Certain service flats which are used by visitors or travellers as alternatives to hotels or holiday accommodation will become taxable in the same way as hotels.
- The relief under which the value for VAT purposes of accommodation in hotels and similar establishments is reduced to one fifth of what it would otherwise be for occupancy after a period of 28 days will be restricted to cases where the occupation is by the same individual throughout.

Subject to parliamentary approval these changes will come into effect on November 1 1986.

A special scheme is to be introduced from April 1 1988 under which the gross profit margins earned by tour operators on their sales of package tours to places within the European Community will be brought within the scope of VAT. Details of the scheme will be worked out in consultation with Abta and other bodies representing the travel industry with a view to legislation being enacted in 1987.

Motoring expenses: The Chancellor has proposed in his Budget statement that from April 6 1987 the 1987-88 Inland Revenue fuel benefit scale will be used to assess the VAT due on petrol and other motor fuel which is used for private journeys by registered traders and their employees, where the petrol has been provided from business resources. The change takes into account the representations made to the consultation document VAT Treatment of Motoring Expenses issued by Customs and Excise in October 1985. The estimated revenue yield will be £40m in 1987-88.

The scale charge will apply to a vehicle used for private journeys for which petrol was provided below cost. It will represent the tax inclusive value of the petrol so provided. The output tax payable against each category of vehicle will be calculated by using the appropriate VAT fraction. With VAT at 15 per cent this fraction is 3/23rds. The amount of private mileage actually travelled will not affect the scale charge, and sole proprietors and partners as well as corporate bodies will be entitled to full input tax deduction on purchase of the petrol, subject of course to the normal rules of entitlement.

As with the Inland Revenue fuel benefit scale, an allowance will be made in respect of cars where the business mileage is high. Where it can be shown that the business mileage of a car covered by the scheme exceeds 4,500 in a three monthly period or 1,500 in a monthly period, the scale charge in respect of private use to be applied in respect of that car for the period will be half the scale as set out above.

More information on scale charges will be issued nearer the date of implementation.

Employment schemes to get more funds

Mr Lawson announced that the Government would spend an additional £195m on enterprise and employment measures in 1986-87 and an additional £290m in 1987-88. The net costs after allowing for social security savings will be financed from the Reserve so that there will be no increase in public expenditure planning totals. The scheme helps unemployed

- Further expansion of the Enterprise Allowance Scheme to an annual rate of 100,000 entrants by April 1987 with some additional training. The scheme helps unemployed people start their own businesses and is currently running at about 65,000 entrants a year.
- A new and upgraded Small Firms Loan Guarantee Scheme lasting for three years with the premium halved from 5 to 2½ per cent.
- A New Workers Scheme to help young people during their first year into jobs by providing a subsidy of £15 per week to employers who recruit those aged 18 or 19 at wages below £55 per week and aged 20 below £65 per week.
- A national Restart programme for the long-term unemployed consisting of: counselling interviews for everyone who has been out of work for 12 months or more; short courses to improve their job finding techniques; £20 weekly Jobstart allowance for six months for people who take jobs with earnings of less than £80 a week. This follows pilots in nine locations since January 6.

THE BUDGET: Details

Tax-free investment plan for savings

WHEN THE Chancellor completed his speech the Inland Revenue issued the following statement on the personal equity plan.

The Chancellor proposes in his Budget an important new tax incentive to encourage savings through the purchase of shares. It will allow everyone aged 18 and over to invest up to £2,400 a year in a Personal Equity Plan (PEP). Provided shares are held for a minimum period of between 12 months and two years, any capital gains and reinvested dividends will be entirely free of tax. This will continue to apply for as long as the investor retains his PEP investment. The scheme will commence on January 1 1987.

How a Personal Equity Plan will work

The Chancellor proposes that the scheme will work broadly as follows:

● An individual (who must be resident and ordinarily resident in the UK for tax purposes) will be able to invest up to £2,400 a year in a PEP. He will pay the money to an authorised PEP manager.
● The funds in the PEP will have to be invested in equities. Apart from a de minimis ceiling, interest-bearing assets will not be allowed.
● On the instructions or authority of the investor, the manager will buy and sell shares on his behalf. Shares must be ordinary shares quoted in a UK stock exchange or dealt in on the Unlisted Securities Market. The manager will conduct the investment and have physical custody of the shares. But the investor will always have beneficial ownership of the shares and will hold all the voting and other rights of share ownership.
● The proceeds from selling the shares, and dividend income received, may be retained within the PEP and used to buy further shares, over and above the £2,400 annual limit.
● Provided that the investment is maintained for a minimum period—which will vary between 12 months and 24 months depending on when in the yesr the PEP is opened—there will be no tax to pay, either on the capital gains or on reinvested dividend income. The investment can be retained within the PEP for as loog as is desired, accumulating free of tax year by year.
● If the investor wishes to withdraw his investment before the minimum period has elapsed, he may do so. But he will lose the tax reliefs, so that any capital gain and dividend income will be taxed in the usual way.

Examples

The longer the investment cootinues, the more the tax reliefs mount up. For example—expressing figures in real terms.

An individual saves £2,400 each year for 10 years, which he invests in a PEP. His portfolio provides him, on average, with an assumed real annual capital gain of 1.5 per cent and a dividend income of 5.5 per cent. He reinvests all his capital gains and dividends and pays no tax. At the end of 10 years, his investment could have huilt up to ovar £35,000, all of which could be taken out without tax. Or, of course, it could be left to continue to grow.

An individual saves £50 a month (£600 a year) for 20 years, with a similar rate of return and tax-free build up. After 20 years, his investment could amount to over £25,000, which he could, if he wished, cash io with no tax to pay.

Qualifying period

Plans will operate on a calendar yaar basis. An investment will be treated as having entered a plan in the calendar year in which it is first used to purchase shares. In order to qualify for the tax exemptions, it must thereafter remain within the plan for the whole of the next calendar year.

For example:

● An investment is made on December 1 1987 and used to purchase shares the same day. It therefore forms part of the investor's permitted allocation of £2400 for 1987. The investment must be retained within the plan throughout the following calendar year 1988, and the earliest it can be realised without loss of tax exemption will be January 1 1989.
● An investor saves £100 a month under the scheme. During 1987 his plan manager invests £1200 in shares (as and when sufficient funds have built up). The investment must be retained within the plan at least until January 1 1989 if it is to qualify for the exemptions.

This rule does not require the original shares to ha held throughout the qualifying period: shareholdings may be switched in the usual way without a tax charge.

Plan managers

Under present legislation, a wide range of bodies would be eligible to register as plan managers, including members of the Stock Exchange, licensed securities dealers and a number of banks and other financial institutions. Subject to its enactment, registration as plan managers will in due course be open to all those with appropriate authorisation under the Financial Services legislation now before parliament.

Green paper on personal taxation reform

Reforms aimed at equality between men and women

BY NICK BUNKER

THE Government's long-awaited green paper on the reform of personal taxation, which was published yesterday, raises "issues of fundamental importance to every taxpayer," according to Mr Nigel Lawson, the Chancellor.

In a forward to the 82-page document, Mr Lawson says it tackles two main sets of issues. First, it contains proposals for reforming "the structure of personal allowances in general and the treatment of married women in particular" aimed at securing complete equality for men and woman.

Second, it provides proposals for a new structure of personal tax allowances which will "take more people out of the poverty and unemployment traps than is possible under the present system for the same cost." This would complement reforms contained in the Social Security Act now before Parliament.

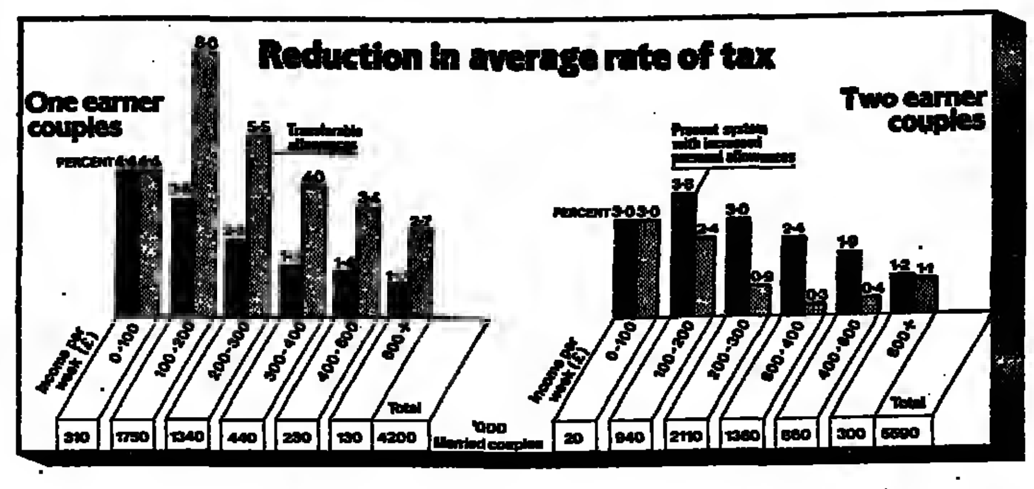
The green paper, he says, also discusses a number of other "possible long-term options." These include ways of streamlining the tax and social security systems, changes to income tax administration made possible by computerisation, and the possibility of amalgamating employees' national contributions with income tax.

Mr Lawson says responses to a previous green paper on personal taxation published in 1980 showed clearly that there was "a widespread sense of dissatisfaction with the existing tax system, particularly among married women."

The present system denies them independence and privacy in tax matters, creates a tax penalty on marriage, and is "hardest on marked couples at just that time when they have the responsibility of a young family, or for an elderly relative."

The green paper envisages a system of transferable allowances which will end the legislation under which a married woman's income is regarded for tax purposes as that of her husband.

It proposes "complete equality of the treatment of men and women for tax purposes.



Discussion of social security and tax link

THE GREEN PAPER "opens up discussion on some important issues concerning the relationship between the tax and social security systems."

It says that full integration of all benefits with tax is "never likely to be either desirable or practical." But the Government will ensure that opportunities for closer working together of the two systems will be taken where they make practical sense.

It says that two proposals are generally put forward. First, that entitlement to benefit should depend simply on income, as assessed for tax purposes. Under this approach, total integration would suggest that benefits such as retirement pensions or child benefits could be withdrawn from people with higher incomes.

Second, it has been proposed that a basic benefit or credit should be extended to everyone, at a level high enough to remove the need for separate benefits. Higher taxes on earnings and other income would recoup the loss.

The Green Paper says that the Government has "serious reservations" about either approach and intends "not to pursue all-embracing big-bank solutions."

Closer integration of tax and social security could be achieved by using the tax system to assess the eligibility of people for income-related benefits, requiring the Inland Revenue to collect information not presently collected, about domestic circumstances.

"Such an approach might reduce administrative overlaps. It could also make claiming a more acceptable, automatic process."

Alternatively, a single set of payments could be introduced, setting off benefits against tax, so that only one net payment is made to or from each family.

The Government has moved towards this in the Social Security White Paper's proposals for the new family credit.

But the Government will also examine the method of taxing National Insurance benefits, and especially the scope for applying PAYE to the national insurance retirement pension, so that the pensioner would receive his pension from the Government after tax had been deducted.

The Reform of Personal Taxation. Cmnd 9756. HMSO, £8.

Arguments for reform outlined to give the family 'a better deal'

THE CHANCELLOR'S green paper on personal taxation outlines a series of arguments for reform of a system which, it says, has remained virtually unchanged since 1942 and rests on tax law dating to the early 1800s.

Single people in the 1986-87 tax year, the green paper says, have a basic personal allowance of £2,335. Married men have about one-and-a-half times the single person's allowance, or £3,665. The wife's earned income allowance is the same as the single person's allowance but can be set only against the wife's own earned income. The income of a married couple is aggregated for tax purposes and treated as if all the income belonged to the husband.

The effects are that a married couple where both are in work have about two-and-a-half times the single allowance. A married couple where only the wife is working, the couple have about two-and-a-half times the single person's allowance.

The green paper proposes "a better deal for the family" based on several objections to the present system.

First, a husband is legally responsible for a wife's tax affairs, so that she lacks financial privacy.

Second, at present the tax system takes account of the shared responsibilities of married people, but bears more harshly on married rather than unmarried couples.

This applies to the taxation of investment income and capital gains, to the additional allowance for single parents, and to mortgage interest relief. It means that there is a tax penalty on marriage which mostly derives from the basic rule that for tax purposes a married woman's income is treated as part of her husband's.

Third, the present system bears hardest on many couples when they have a young family. This is because under the present system a two-earner couple pay substantially less tax than a one-earner couple with the same income.

This means that the present system takes no account of the life cycle whereby women have paid work until they leave it to bring up children, but then return to work later in life. Couples see a sharp reduction on their personal allowances if the wife leaves work, even though this may be at a time (such as the raising of a family) when they can least afford it.

Fourth, tax thresholds are too low. Too many people still come into tax at to low an income, and low tax-thresholds weaken incentives. The group worst affected is low-earning married men with families.

This means that one-earner families are caught in the unemployment trap, whereby their income out of work is almost as high as their disposable income in work. They may also be caught in the poverty trap, where because of the combination of income tax, national insurance contributions and the withdrawal of income-related benefits, they are little or no better off is earnings rise.

Following the present reform of social security, which is intended to alleviate these traps, the Government could raise tax thresholds so as to increase the income of the families worst affected. Under the present system "it is very expensive to increase tax thresholds for married women where the wife is not in paid employment.

"The present system therefore does not target effectively the benefit of threshold increases where it is most needed and where it can do most to ease the poverty and unemployment traps," the green paper says.

"We need to move to a new system that taxes married women on the same basis as their husbands, that does not discriminate against marriage and that enables us to increase tax thresholds in a more cost-effective way."

Transferable allowances could aid personal taxation reform

THE GOVERNMENT could meet the objectives of its personal taxation reform proposals by introducing "a new system of independent taxation with transferable allowances," according to the Green Paper.

"Under this system everyone, man or woman, married or single — would have a tax allowance in their own right, whether or not they were in paid employment," the Green Paper says.

"To recognise the shared responsibilities of a married couple, a spouse who did not have enough income to use up their own tax allowance would be able, if they wished, to transfer the balance to their partner. The income of a husband and wife would no longer be added together for tax purposes, and all taxpayers would have independence and privacy in their tax affairs."

Were a system of this kind to be brought in, the Government would aim to do so, so that no couple would suffer a cash reduction in their total allowance during the change.

On 1986-87 figures this would mean:

● Single people would have their allowance raised from £2,335 to £2,995.
● the married man who was the only earner in the family would have his tax threshold raised from £3,655 to £5,990 (assuming that his wife transferred her allowance to him).
● two-earner married couples and married couples where the wife is the sole earner would keep the same total allowances in cash terms, £5,990.

A decision about the phasing of any change in the system cannot be taken now. "It would be taken much nearer the introduction of the present system, in the light of economic circumstances and the scope for tax reductions."

The effect of introducing transferable allowances would be to treat women as independent taxpayers, responsible for their own affairs and filling in of forms, and affording them complete privacy.

"It would recognise through the tax system that at certain times one married partner is financially dependent on the other, by ensuring that the couple's total allowances remained the same and did not fall when one partner left work.

It would remove the present special tax incentive for two earner couples. "Such positive discrimination is neither necessary nor economically desirable at a time of high unemployment."

However, the Green Paper says that "there can be no direct evidence for or against" the view that transferable allowances would deter married women from returning to work because a husband would stand to lose the benefit of her tax allowance.

A shift to transferable allowances would "enhance tha benefits of tax thresholds in two ways: the change itself would reduce the tax burden on couples where only one partner had a paid job; and once the new structure was in place, thresholds could be raised more effectively than under the present system."

The Government, however, will study responses carefully before deciding how to take the issues forward, the Green Paper says.

Introduction of transferable allowances and the end of aggregation of husband's and wife's incomes would affect 11m married couples, about 1m employers, and soma 600 tax tax officers. "By any standards it would be a major change."

It would require information from taxpayers not presently held in many cases and would have two major administrative consequences. First, tax offices would have to be geared to making more adjustments, assessments and repayments of tax because many people's personal allowances would change during the year according to their circumstances.

Second, there would need to be "an efficient mechanism for linking the tax records of husband and wife," requiring an index and tracing facility, and facilities for electronic transfer of data between tax offices.

New computer facilities would be "an essential requirement," together with additional staff — possibly several thousand once the system became fully operational.

Shares and share options

Loopholes on staff shares to be closed

AFTER THE Chancellor sat down the Inland Revenua issued a statement on share interests acquired by directors and employees: The Chancellor proposes in his Budget to close certain loopholes currently being exploited ln existing legisletion which taxes gains from shares and share options acquired by directors and employees hy virtua of their employment.

The legislation in qnestion applles where such gains do not qualify for the tax reliefs associated with approved employee share schemes.

The necessary emendments will be containad in the Finance Bill, and will take effect on March 19 1986. They are:

Section 186, Income and Corporation Taxes Act 1970

Present position: Where, outside the ambit of an approved employee share scheme, a director or employee realises a gain from the exercise, assignment or release or an option to acquire shares in a company which was obtained by reason of his employment, the gain is chargeable under Section 186 with *Schedule E income tax. Devices* hased on such options being allowed to lapse are being used to avoid the tax charge.

The proposed changes: A charge to tax will arise under Section 186 when any benefit is received or gain is realised on or after March 19 1986 in either of the following circumstances:

● The option holder omits or undertakes to omit to exercise his option:
● The option bolder grants or undertakes to grant an option over the shares which are the subject of his own option.

Section 79, Finance Act 1972

Present position: As a means of preventing tax free employment remuneration through the provision of shares at artificially low prices or shares the value of which can subsequently be manipulated, Section 79 (4) charges to income tax increases in the value of shares acquired by a director or employee hy reason of his employment.

The tax charge relates only to original acquisitions, and not to any bonus rights issues *derived from them. It arises* either on the seventh anniversary of the acquisition, or on the earlier disposal of the shares or interest in shares, or the lifting of any restrictions on the shares. A range of exemptions from the tax charge operate, in particular where the shares are not subject to defined restrictions, provided aither that tha majority of the shares of the class in question was not acquired hy directors and employees as such, or that directors and employees control the company by virtue of their holdings.

Devices to avoid the Section 79 (4) charge have made use of:

● The present treatment of bonus and rights issues, both to dilute the value of the original acquisition for tax purposea and to secure qnalification for the "majority" exemption.
● The triggering of the tax charge by the early removal of trivial restrictions, although the other requirements for exemption *from the charge* may remain unfulfilled.

The proposed changes: The legislation will provide, with effect from March 19, 1986, that:

● In cases where a Section 79 (4) charge arises, the charge will also take account of bonus rights issues derived on or after March 19, 1986, from the director's or employee's shares.
● Bonus or rights issues derived from a holding which is subject to a Section 79 (4) charge will not count towards establishing qualification to any exemption.
● The removal of a restriction attached to a share within the scope of a Section 79 (4) charge will not occasion a charge, unless all the conditions for exemption from charges under Section 79 (4) are then satisfied. The full growth in valne since acquisition will be taxed at the aeventh anniversary, or on the earlier disposal.

Non-resident entertainers to be taxed

THE Inland Revenue issued the following statement on non-resident entertainers and sportsmen after the Chancellor sat down.

In his Budget, the Chancellor proposes to introduce rules in the UK similar to those which exist elsewhere to counter non-payment of tax by non-resident entertainers and sportsmen. Most other major countries have withholding taxes and other measures designed to deal with this prohlem. UK entertainers and sportsmen who earn income in these countries have tax deducted before they receive lt.

The Chancellor proposes that in future tax should be withheld at source from UK earnings of non-resident entertainers and sportsmen. This means that their earnings will be paid net of tax at the hssic rate. (In practice their liabillty will often be greater than this.) Steps will also be taken to counter the avoidance errangements which exist. The new rules will not apply before 1987-88.

The change is necessary because of the difficulty, encountered also by other countries, of securing tax payments from non-resident entertainers and sportsmen who pay short visits to the country concerned. Under present UK law they have often left the country before tax can be assessed and collected. In addition some of the higher earners set up arrangements to shelter their income from taxation. The result is that the income of non-resident entertainers and sportsmen can often easily escape UK tax. Currently the income tax yield on their UK activities ls under £2m. With the new rules, the yield in a full year will be over £100m.

Capital Tax

Special measures planned over gifts

THE *Inland Revenue* issued the following statement on capital transfer tax and inheritance tax relating to gifts with reservation and insurance policies.

The Chancellor proposes to include special measures for taxing gifts made with reservations—that is broadly gifts where the property is not enjoyed by the recipient to the entire exclusion of the donor. Examples of such gifts are where a house is given but the donor continues to reside in lt, where a settlor of a discretionary trust is also a beneficiary and, under certain insurance schemes, where the taxpayer retains a right to benefits in his lifetime.

Treatment of gifts in lifetime.

Under the new rules, a gift with reservation will be treated in the same way as any other gift at the time it is made. A gift between individuals will not be taxed at that time. A gift to a trust or a company will be taxed when it is made. Gifts involving insurance policies will be subject to these same rules depending on the recipient of the gift (individual, trust or company).

Treatment on death.

When the donor dies special rules will apply. The gift will be treated for the purposes of the death charge as having been made when the reservation was released or the enjoyment ceased, if later, even if the gift was made many years earlier.

● If the reservation was released more than seven years before death, there will ha no death charge on it.
● If the reservation was released less than seven years before death, the gift will be taxed as if it had been made at that time, on the basis of its value then. Credit will be given for any tax paid at the time of the original gift.
● If the reservation was not released until death, the gift will be taxed as part of the donor's estate on the basis of its value at the date of death. Again, credit will be given for any tax paid at the time of the original gift.

Entry into effect.

The new measures will apply to gifts made after midnight on Monday. In deciding whether a gift was made before or after then, it will be necessary to look carefully at the surrounding circumstances.

In straightforward cases where a gift involving an insurance policy or policies is mede to an individnal, the date of the gift will normally be the date on which tha *insurance itself is made.* The issues may be more complex when the gift is made to a trust. The gift to the trust will be subject to the new rules unless it was perfected by midnight on Monday.

The question of when an insurance is made is a matter of contract law. The Inland Revenua's understanding is that an insurance is not legally made until one party to the contract *has* unconditionally accepted an offar (or counter-offer) from the other and notified him or her to that effect. Where an offer is accepted by the insurer the contract will normally be concluded by despatch of a letter of acceptance or tha policy to the policyholder. Provided that such notificatiun was posted before midnight on March 17, the contract in question will *normally be regarded as* mada before the deadlina. Where acceptance by the insurer is subject to conditions the contract is normally concluded whan the conditiona (eg payment of the premium) are fulfilled. Where a counter-offer is made by the insurer tha contract of insurance is made when the insured accepts the counter-offer, either by notifying the insurer to that effect or by aubseqnent payment of a premium.

Capital transfer tax and inheritance tax: partly exempt estates.

The Chancellor proposes in his Budget to clarify the rules for dealing with estates which include property qualifying for business and agricultural reliefs and an exempt beneficiary (eg a spouse).

At present, where a transfer (usually of an estate on death) *is* partly exempt (eg where the spouse is a beneficiary) and includes property qualifying for business or agricultural relief, that relief is given first and then the exempt and chargeahla parts of the transfer are ascertained.

The rules for determining the exempt and chargeahle parts of such transfers are contained in sections 38-42 CTTA 1984. The rules relating to business property relief are in sectiona 103-114 CTTA 1984 and those relating to agricultural property reliaf are in sections 115-124 CTTA 1984. These reliefs reduce the value of the property by aither 30 per cent or 50 per cent for tax purposes. The changes will mean that where there is a *specific* gift of property qualifying for husiness or agricultural relief, the relief will attach to that property.

Tax reliefs on approved employee share schemes

THE Inland Revenue issued the following statement on approved employee share schemes after the Chancellor's speech.

The Chancellor proposes in his Budget a number of improvements in the legislation which provides tax reliefs for participation in approved employee share schemes. These improvements will:

● Make the introduction of such schemes easier for companies which wish to retain some control over holdings of their shares.
● Assist some employee-controlled companies which in the past have heen prevented from introducing approved schemes.
● Assist some worker co-operatives by allowing the use of redeemable shares.
● Ease the present rules affecting the exercise of options under approved savings-related schemes.

Thesa changes sre briefly described below. Legislation will be contained in the Financa Bill.

Restrictions on shares used in approved employee share schemes. Shares subject to special restrictions may not at present be used in profit-sharing schemes, savings-related share option schemes and other share oplion schemes approved respectively under the 1978, 1980 and 1984 Finance Acts. This has prevented the introduction of such schemes by companies anxious to retain control over holdings of their shsres by requiring that employees must sell their shares when their employment ends. The Finance Bill will contain legislation to permlt tha use of shares subject to such a disposal requirement, where certain conditions aimed particularly at protecting the interests of amployee participants in these schemes are met.

Employee-controlled companies. Some employee-controlled companies have heen prevented from introducing approved schemes by the rule that, where a company has two classes of issued ordinary shares, most of tha class of shares to be used in the scheme must be held by outsiders (ie not employees or controlling or associated companies). The Finance Bill will contain legislstion to permlt the use, in this situation, of a class of shares of which the msjority is held by directors or employees and gives them control of the company.

Worker-co-operatives. The Finance Act 1978 prohibits the use of redeemable shares in an approved profit-sharing scheme. The Finance Bill will contain legislation to permit the use of such shares ln this kind of schema by worker co-operatives registered under tha Industrial and Providant Societies Acts.

Exercise of savings-related share options. Employee participants in approved savings-related share option schemes (Finance Act 1980) may not he permitted to exercise any options they have held for less than threa years if the company or part of its business in which they ara employed is sold or otharwise leaves the group operating the scheme. The Finance Bill will contain legislation to permit approved schemes to provide for the exercisa of options in these circumstances.

Rules on closely controlled company loans amended

IN A post-bndget statement, the Inland Revenue issued the following statement on Loans to participators in close companies:

Tha Chancellor proposes in his Budget to amend the rules which apply when a closely controlled company makes a loan to its participators (broadly, lts shareholders).

When a company makes such a loan, tax is charged on the company at the ACT rate (Section 286, Income and Corporation Taxes Act 1970). If subsequentiy the loan is repaid, the company can reclaim the tax. It is not clear what is to happen however if the loan is repaid to the company before the charge to tax is raised. One body of Commissioners has held that no charge can then be raised. The effect of this would be that successlva loans could be made, effectively bypassing the provisions. If so tax receipts could be reduced by tens of millions of pounds in the coming year with a continuing interest loss. On the other hand, another body of Commissioners has held that the tax can be charged hut the company cannot get the relief: this would clearly be inequitahle.

The Chancellor's proposal will therefore ensure that from tomorrow a Section 286 charge can be raised after a loan from the company has been repaid while giving a proper measure of relief to the company.

Artist in Industry plan for Scotland

THE SCOTTISH Arts Council is to lsunch Scotland's first Artist in Industry fellowship scheme, as part of Industry Year 1986. Six three-month fellowships ara to be established throughout Scotland ln large and small companies representing traditional industries as well as high technology developments.

EIB lends £10.5m

THE EUROPEAN Investment Bank is to lend £10.5m towards financing road, water supply and sewage schemes in ceotral Scotland and road improvements in Lancashire.

THE BUDGET: Details

Income tax reductions

New tax tables in use from May 17

PERSONAL ALLOWANCES

	1985-86	Proposed increase		1986-87 proposed level
	£	£	%	£
Single person's allowance (and wife's earned income relief)	2,205	130	5.9	2,335
Married man's allowance	3,455	200	5.8	3,655
Additional personal allowance and widow's bereavement allowance	1,250	70	5.6	1,320
Age allowance (single)	2,690	160	5.9	2,850
Age allowance (married)	4,255	250	5.9	4,505
Age allowance income limit	8,800	600	6.8	9,400

RATES AND RATE BANDS

Rate of tax	1985-86 taxable income	Proposed increase in starting point		1986-87 proposed taxable income
%	£	£	%	£
29		—	—	0-17,200
30	0-16,200			
40	16,201-19,200	1,000	6.2	17,201-20,200
45	19,201-24,400	1,000	5.2	20,201-25,400
50	24,401-32,300	1,000	4.1	25,401-33,300
55	32,301-40,200	1,000	3.1	33,301-41,200
60	over 40,200	1,000	2.5	over 41,200

WIFE,S EARNINGS ELECTION

The table below provides a guide to when an election may be beneficial. If the combined income is the figure in column A, then the wife's earnings must normally be within the figures in column B to make an election worthwhile. The figures are shown before the deduction of reliefs or personal allowances.

1985-86 A Combined income	1985-86 B Wife's earnings	1986-87 A Combined income	1986-87 B Wife's earnings
£	£	£	£
25,361	6,956-18,405	26,521	6,986-19,535
30,000	5,956-24,044	30,000	6,048-23,952
35,000	5,331-29,669	35,000	5,478-29,522
40,000	4,956-35,044	40,000	5,309-34,691
at least 47,110	4,706 and above*	at least 48,425	4,890 and above*

* Provided other income (husband's income plus wife's investment income) is also at least £4,706.

* Provided other income (husband's income plus wife's investment income) is also at least £4,890.

COSTS (£m)

	1986-87 total costs	1986-87 cost above indexation	1987-88 total costs
Personal allowances	1,020	—	1,285
Basic rate limit	70	—	115
Reduction of 1p in basic rate	830	830	1,245
Increase in further higher rate thresholds	35	–15	70
Totals	1,955	815	2,715

MARRIED COUPLES-HUSBAND AND WIFE BOTH WORKING—INCOME ALL EARNED

COMPARISON OF INCOME AFTER TAX IN 1985-86 AND 1986-87 WHERE EARNINGS INCREASE BY 7 PER CENT

Weekly income in 1985-86 Husband	Wife	Joint	Charge in 1985-86 Income tax	Percentage of income taken in tax	Adjusted weekly income† in 1986-87 Husband	Wife	Joint	Proposed charge in 1986-87 Income tax	Percentage of income taken in tax	Percentage change in income after tax
£	£	£	£	%	£	£	£	£	%	%
100.00	50.00	150.00	12.35	8.2	107.00	53.50	160.50	13.14	8.2	7.1
	100.00	200.00	27.35	13.7		107.00	214.00	28.65	13.4	7.4
	150.00	250.00	42.35	16.9		160.50	267.50	44.17	16.5	7.4
	200.00	300.00	57.35	19.1		214.00	321.00	59.68	18.6	7.7
	300.00	400.00	87.35	21.8		321.00	428.00	90.71	21.2	7.9
150.00	50.00	200.00	27.35	13.7	160.50	53.50	214.00	28.65	13.4	7.4
	100.00	250.00	42.35	16.9		107.00	267.50	44.17	16.5	7.6
	150.00	300.00	57.35	19.1		160.50	321.00	59.68	18.6	7.6
	200.00	350.00	72.35	20.7		214.00	374.50	75.20	20.1	7.8
	300.00	450.00	105.31	23.4		321.00	481.50	110.14	22.9	7.7
200.00	50.00	250.00	42.35	16.9	214.00	53.50	267.50	44.17	16.5	7.6
	100.00	300.00	57.35	19.1		107.00	321.00	59.68	18.6	7.7
	150.00	350.00	72.35	20.7		160.50	374.50	75.20	20.1	7.7
	200.00	400.00	87.35	21.8		214.00	428.00	90.71	21.2	7.9
	300.00	500.00	124.56*	24.9		321.00	535.00	129.16*	24.1	8.1
300.00	50.00	350.00	72.35*	20.7	321.00	53.50	374.50	75.20	20.1	7.8
	100.00	400.00	87.35	21.8		107.00	428.00	90.71	21.2	7.9
	150.00	450.00	105.31	23.4		160.50	481.50	110.14	22.9	7.7
	200.00	500.00	124.56*	24.9		214.00	535.00	129.16*	24.1	8.1
	300.00	600.00	154.56*	25.8		321.00	642.00	160.13*	24.9	8.2
400.00	50.00	450.00	105.31	23.4	428.00	53.50	481.50	110.14	22.9	7.7
	100.00	500.00	126.40	25.3		107.00	535.00	133.10	24.9	7.6
	150.00	550.00	144.16*	26.2		160.50	588.50	150.38*	25.6	8.0
	200.00	600.00	159.16*	26.5		214.00	642.00	165.89*	25.8	8.0
	300.00	700.00	189.16*	27.0		321.00	749.00	196.92*	26.3	8.1

† The adjusted incomes shown for 1986-87 are for illustration. They have been obtained by increasing the corresponding incomes in 1985-86 by 7 per cent.
* Denotes wife's earnings election beneficial.

MARRIED COUPLE WITH TWO CHILDREN—INCOME ALL EARNED

COMPARISON WITH 1985-86 WHERE EARNINGS INCREASE BY 7 PER CENT BETWEEN 1985-86 AND 1986-87 INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED IN)

1985-86 (Post November 1985) Income	Income tax	NIC	Child benefit	Net income	1986-87 (Post July 1986) Adjusted income*	Income tax	NIC	Child benefit	Net income	Change in net income
£	£	£	£	£	£	£	£	£	£	%
70.00	1.07	4.90	14.00	78.03	74.90	1.34	5.24	14.20	82.52	5.8
80.00	4.07	5.60	14.00	84.33	85.60	4.44	5.99	14.20	89.37	6.0
90.00	7.07	8.10	14.00	88.83	96.30	7.54	8.67	14.20	94.29	6.1
100.00	10.07	9.00	14.00	94.92	107.00	10.65	9.63	14.20	100.92	6.3
120.00	16.07	10.80	14.00	107.12	128.40	16.85	11.56	14.20	114.19	6.6
140.00	22.07	12.60	14.00	119.33	149.80	23.06	13.48	14.20	127.46	6.8
160.00	28.07	14.40	14.00	131.53	171.20	29.26	15.41	14.20	140.73	7.0
180.00	34.07	16.20	14.00	143.73	192.60	35.47	17.33	14.20	154.00	7.1
200.00	40.07	18.00	14.00	155.93	214.00	41.68	19.26	14.20	167.26	7.3
250.00	55.07	22.50	14.00	186.43	267.50	57.19	24.07	14.20	200.44	7.5
300.00	70.07	23.85	14.00	220.08	321.00	72.71	25.65	14.20	236.84	7.6
350.00	85.07	23.85	14.00	255.08	374.50	88.22	25.65	14.20	274.83	7.7
400.00	102.27	23.85	14.00	287.88	428.00	106.70	25.65	14.20	309.85	7.6
500.00	145.48	23.85	14.00	344.67	535.00	153.31	25.65	14.20	370.24	7.4

* The adjusted incomes shown for 1986-87 are for illustration. They have been obtained by increasing the corresponding incomes in 1985-86 by 7 per cent.
Employees' National Insurance Contributions are at the standard Class 1 rate for employment not contracted out of the State additional (earnings-related) pension scheme.
Calculations assume that only the husband has earned income.

AFTER THE Chancellor sat down the Treasury issued the fellewing statement:

Implementing the changes through PAYE:

Reduction in basic rate and changes in higher rate bands: New tax tables reflecting the changes will be used by employers on the first pay day after May 17.

Changes in personal allowances

● For employees whose codes eed L, H, P, or V: tax effices will be *sending* employers instructions to increase codes eeding in L, H, P, or V by the appropriate amounts shown in paragraph 1. The new increased codes should take effect on the first pay day after May 17. Revised codiog notices are nol sent to employees when codes are *increased automatically in* this way.

● For employees whose codes begin with F or end in T: these codes will be *reviewed* iodividually by the tax office which will notify both the employee and employer ef the revised code where a change is due. The revised codes will generolly take effect on the first pay day after May 17.

● For employers: tax offices will instruct cmployers to increase, by the appropriate amount, codes ending in L, H, P. and V. They will also issue to them, where *necessary, revised codes* beginning in F and ending in T.

New codes and tax tables will generally be used on the first pay day after May 17.

Employees liable to tax at the higher rates.

There are special adjustments *in the* PAYE codes of some employees liable to tax at the bigher rates. Tbis is because either their wives are working ("excessive basic rate" adjustment) or they have a mortgage ("Interest—higher rate relief" adjustment). These adjustments will be reviewed and revised where necessary by tax offices in the course of examining these taxpayers' 1986-87 tax returns.

Increase in income limit for age allowance.

Where a taxpayer or his wife is over 65 but their tetal income is above a certain limit, the age allowance is progressively withdrawn until it is reduced to the level of the basic single or married allewance. It is proposed *to raise* the *iecome limit*—below which age allowance is due in full—to £9,400. Tbis means that in the tax year starting April 6 1986 the benefit of the married age allewaoce will net run out uotil the taxpayer has income of £10,675. For a single person tbe corresponding figure of iecome is £10,173.

Tax offices will amend codes which et present include a reduced amount of age allewance, to take account of the increase in the income limit. Where the size of a taxpayer's income means that no age allowance was given for 1985-86 but age allowance is now due, the tax office will revise the code where necessary in the course of exameing the 1986-87 tax return.

Any taxpayer wbe is not getting age allowance at oresent but expects to be entitled to age allowance following the proposed increase in the income limit, and has not been asked by the middle of April te complere a 1986-87 tax return, should write to his or her tax office giving details of income and date of birth.

Wife's earnings election.

In certain circumstances a married couple may find it to their advantage to elect for the wife's earnings to be taxed separately. Fer 1986-87 an election will normally only be worthwhile if the couple's combined income before deduction of allowances and reliefs is over £26,520, iocluding wife's earned income of at least £6,986. (The corresponding figures for 1985-1986 are £25,360 and £6,956.) The table herewith shows the position for other levels of income. Inland Revenue leafiet IR13 gives further details fo the election.

SINGLE PERSONS—INCOME ALL EARNED

Income	Charge for 1985-86 Income tax	Percentage of total income taken in tax	Proposed charge for 1986-87 Income tax	Percentage of total income taken in tax	Reduction in tax after proposed change Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
3,000	239	8.0	193	6.4	46	1.5
4,000	539	13.5	483	12.1	56	1.4
5,000	839	16.8	773	15.5	66	1.3
6,000	1,139	19.0	1,063	17.7	76	1.3
7,000	1,439	20.6	1,353	19.3	86	1.2
8,000	1,739	21.7	1,643	20.5	96	1.2
9,000	2,029	22.7	1,933	21.5	106	1.2
10,000	2,339	23.4	2,223	22.2	116	1.2
12,000	2,939	24.5	2,803	23.4	136	1.1
14,000	3,539	25.3	3,383	24.2	156	1.1
16,000	4,139	25.9	3,963	24.8	176	1.1
18,000	4,739	26.3	4,543	25.2	196	1.1
20,000	5,498	27.5	5,174	25.9	324	1.6
25,000	7,677	30.7	7,297	29.2	380	1.5
30,000	10,097	23.7	9,660	32.2	437	1.5
40,000	15,372	38.4	14,879	37.2	493	1.2
50,000	21,252	42.5	20,702	41.4	550	1.1
60,000	27,252	45.4	26,702	44.5	550	e.9

MARRIED COUPLES—INCOME ALL EARNED

4,000	163	4.1	100	2.5	63	1.6
5,000	463	9.3	390	7.8	73	1.5
6,000	763	12.7	680	11.3	83	1.4
7,000	1,063	15.2	970	13.9	93	1.3
8,000	1,343	17.0	1,260	15.8	103	1.3
9,000	1,663	18.5	1,550	17.2	113	1.3
1e,000	1,963	19.6	1,840	18.4	123	1.2
12,000	2,563	21.4	2,420	20.2	143	1.2
14,000	3,163	22.6	3,000	21.4	163	1.2
16,000	3,763	23.5	3,580	22.4	183	1.1
18,000	4,343	24.2	4,160	23.1	203	1.1
20,000	4,998	25.0	4,740	23.7	258	1.3
25,000	7,115	28.5	6,703	26.8	412	1.6
30,000	9,472	31.6	9,000	30.0	472	1.6
40,000	14,685	36.7	14,153	25.4	532	1.3
50,000	20,502	41.0	19,910	39.8	592	1.2
60,000	26,502	44.2	25,91e	43.2	592	1.8

(Calculations assume that only the husband has earned income)

ELDERLY SINGLE PERSONS—INCO ME ALL EARNED

2,750	18	0.7	0	0.0	18	0.7
3,000	92	3.1	43	1.5	49	1.7
4,000	392	9.8	333	8.3	59	1.5
5,000	692	13.8	623	12.5	69	1.4
6,000	992	16.5	913	15.2	79	1.3
7,000	1,292	18.5	1,203	17.2	89	1.3
8,000	1,592	19.9	1,492	18.7	99	1.2
9,000	1,932	21.5	1,783	19.8	149	1.7
10,000	2,338	23.4	2,189	21.9	149	1.5
11,000	2,639	24.0	2,513	22.8	126	1.1
12,000	2,939	24.5	2,803	23.4	136	1.1

ELDERLY MARRIED COUPLES—INCOME ALL EARNED

4,500	73	1.6	0	0.0	73	1.6
5,000	223	4.5	143	2.9	80	1.6
6,000	523	8.7	433	7.2	90	1.5
7,000	823	11.8	723	10.3	100	1.4
8,000	1,123	14.0	1,013	12.7	110	1.4
9,000	1,463	16.3	1,303	14.5	160	1.8
10,000	1,963	19.6	1,709	17.1	254	2.5
11,000	2,263	20.6	2,130	19.4	133	1.2
12,000	2,563	21.4	2,420	20.2	143	1.2

For incomes above these levels, the figures are the same as those in Tables 1 and 2.
(Calculations assume that only the husband has earned income)

SINGLE AND MARRIED COUPLES—INCOME ALL EARNED

COMPARISON WITH 1985-86 WHERE EARNINGS INCREASE BY 7 PER CENT BETWEEN 1985-86 AND 1986-87 INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED IN)

Weekly income in 1985/86	Charge for 1985-86 Income tax	NIC†	Percentage of total income taken in tax & NIC	Adjusted* income in 1986/87	Proposed charge for 1986-87 Income tax	NIC†	Percentage of total income taken in tax & NIC	Percentage charge in income after tax & NIC
£	£	£	per cent	£	£	£	per cent	per cent
Single persons								
50.00	2.28	2.50	9.6	53.50	2.49	2.67	9.6	6.9
55.00	3.78	3.85	12.9	58.85	4.04	2.94	11.9	9.5
60.00	5.28	4.20	15.8	64.20	5.59	4.49	15.7	7.1
70.00	8.28	4.90	18.8	74.90	8.70	5.24	18.6	7.3
80.00	11.28	5.60	21.1	85.60	11.80	5.99	20.8	7.4
90.00	14.28	8.10	24.9	96.30	14.90	8.67	24.5	7.6
100.00	17.28	9.00	26.3	107.00	18.01	9.43	25.8	7.7
120.00	23.28	10.80	28.4	128.40	24.21	11.56	27.9	7.8
140.00	29.28	12.60	29.9	149.80	30.42	13.48	29.3	7.9
160.00	35.28	14.40	31.1	171.20	26.62	15.41	30.4	8.0
180.00	41.28	16.20	31.9	192.60	42.83	17.33	31.2	8.1
200.00	47.28	18.00	32.6	214.00	49.04	19.26	31.9	8.2
250.00	62.28	22.50	33.9	267.50	64.55	24.07	33.1	8.3
300.00	77.28	23.85	33.7	321.00	80.07	25.65	32.9	8.3
350.00	92.28	23.85	33.2	374.50	95.58	25.65	32.4	8.3
400.00	111.88	23.85	33.9	428.00	116.85	25.65	33.3	8.0
500.00	156.30	23.85	36.0	535.0e	164.82	25.65	35.6	7.7
Married couples‡								
70.00	1.07	4.90	8.5	74.90	1.34	5.24	8.8	6.7
80.00	4.07	5.60	12.1	85.60	4.44	5.99	12.2	6.9
90.00	7.07	8.10	16.9	96.30	7.54	8.67	16.8	7.0
100.00	10.07	9.00	19.1	107.00	10.65	9.43	19.0	7.2
120.00	16.07	10.80	22.4	128.40	16.85	11.56	22.1	7.4
140.00	22.07	12.60	24.8	149.80	23.06	13.48	24.4	7.5
160.00	28.07	14.40	26.5	171.20	29.26	15.41	26.1	7.7
180.00	34.07	16.20	27.9	192.60	25.47	17.33	27.4	7.8
200.00	40.07	18.00	29.0	214.00	41.68	19.26	28.5	7.8
250.00	55.07	22.50	31.0	267.50	57.19	24.07	30.4	8.0
300.00	70.07	23.85	21.3	321.00	72.71	25.65	30.6	8.0
350.00	85.07	23.85	21.1	374.50	80.22	25.65	30.4	8.1
400.00	102.27	23.85	31.5	428.00	106.70	25.65	30.9	7.9
500.00	145.48	23.85	33.9	535.00	153.31	25.65	33.5	7.7

* The adjusted incomes shown for 1986-87 are for illustration. They have been obtained by increasing the corresponding incomes in 1985-86 by 7 per cent.
† National Insurance Contributions are at the standard Class 1 rate for employment not contracted out of the state additional (earnings related) pension scheme.
‡ Assuming that only the husband has earned income.

Capital Transfer Tax

Structural alterations accompany change of name to Inheritance Tax

AFTER the Chancellor aat down, the Inland Revenne issued the following statement:

The Chancellor proposes in his Budget cbanges to the atructure of Capital Transfer Tax (CTT), which will ln future be *known* as *Inheritance Tax.* The proposals are as follows:

● The existing lifetime CTT charge on gifts between individuals will be *abolished* for transfers on or after Budget Day.

● Gifts made within seven years ef death will *generally be* brought inte charge at a tapered rate but the tax charge on gifta into trust and trust events will *continue much as at present.*

● There will be special rules to prevent the avoidance of the cbarge on death by gifts where the donor reserves er enjoys a benefit.

There are separate press releases covering the effect of these rules on gifts with particular reference to those involving insurance policies and showing the new rate scales.

Lifetime transfers: for transfers made on or after March 18 1986, no lifetime charge on *gifts between* individuals; no lifetime charge on gifts into accumulation and maintenance trusts and trusts for the disabled.

Trusts and companies: lifetime charge retained for gifts into and out of trust, discretionary *trust charges,* and *gifts* involving companies. Periodic charges on discretionary trusts will continue on a 10 yearly basis.

Reduced cumulation period: the cumulation period for a donor's or settler'a chargeable transfers will he reduced from 10 to 7 years.

Gifts within seven years of death:

● *Gift will be taxable.*

● With cumulation of cbargeable transfers in previous seven years (insttad of 10 fer CTT).

● Cumulation fer each gift will include property which the donor put into trust in the seven years before the gift, any settled property in wbicb he bad an interest in possessien where the interest came to an end or was disposed of within that period plus any earlier gifts in the seven years before death.

● The value nf the estate on death will be taxed as the top slice of cumulative transfers in the seven years before death.

Existing exemptions: Where *lifetime transfers* are chargeable (eg a gift into trust) they will still he eligible for exemptions (eg £3,000 annual exemption) much as at present. Chargeable transfers in life er on death may also be eligible fer existing exemptions (eg *spouse,* charities, heritage) and reliefs (eg business, agriculture).

Rate of charge on gifts within *seven years of* death: *Transfers* on or within seven years ef death will be taxed on their value at the date of the gift en *the* death rate scale, but using the scale ln force at the date of death. This scale, equivalent to the 1985-86 CTT rate scale unrated by statutory indexatien, is set out in a separate press release. Hewever, the tax on transfers in the years befere death will be subject to the following taper: when there are up to three years between gift and death, the amount ef full charge at death rates will be 100 per cent. For three to four years it will be 80 per cent; for feur to five years, 60 per cent; for five to six year, 40 per cent; for six to seven year, 20 per cent.

Lifetime charge: Trust events and ether events still subject to a lifetime charge will continue to be taxed at half the death rates. Wbere a transfer, sucb as an eetry inte trust shertly before death, is taxed both immediately and on death, the lifetime tax will be credited against the tax due on death, much as at present.

Reintroduction of estate duty provisiens: gifts with reservation and debts: There will be rules, similar te those under estate duty, to protect the charge on death where gifts are not made eutright. These will apply wbere the donor of a gift reserves a benefit from a gift or subsequently enjoys the benefit of the gifted property or property represeeting it. If that ia the case, the gift will generally be treated fer the purposes ef the death charge as made enly wben the reservatien is released er the enjoymeot finally ceases, if later. The property concerned will he taxed on its value at that time.

There will be exceptions for minimal benefits, and where reasonable provisien is made for the maintenance of a relative who becomes unable to maintain him or herself because of changed circumstances since the gift.

Certain debts will be disallowed as liabilities of a *deceased's estate* if *the creditor* had received gifts from the deceased or if the liabilities were not incurred for full consideration and for the deceased's own use or benefit.

There will be provisiens fer rearranging the pre-death cumulation to cover the unusual case where reservations are created or gifts with reservation are made into or out of trust, within seven years before death. There will also be provisions to prevent effective double charges on the same property ln the same bands. There is a separate Press release en the effect on certain insurance-based scbemes.

Administration: The new regime will coetinue most ef the existing CTT provisions controlling liability and the reedering of accounts. As at present, personal representatives will be respensible for enquiries about transfers in the period before death including any gifts made by the deceased to an individual. The primary responsibility for the tax on gifts triggered by the doner's death will fall on the done, but with recourse to the donor's estate if necessary.

The current prints of Inland Revenue *Accounts (in Scotland, Inventories)* should be used for the time being for the purposes of Inheritance Tax in connection with deaths whicb occur on or after March 18 1986. Until new forms are prodnced references in the existing forms to Capital Tranfer Tax will be read as though they were references to Inheritance Tax. Appropriate adaptationa may, if necessary, be made.

Transitional arrangements: Where a gift made before Budget Day is chargeable as a result ef the doner's death on er after Budget Day, no more tax will be payable under tbe new regime than if tbe present regime had continued. The new rules abeut gifts with reservation (including insurance schemes) or nen-deductibility of debts will not apply te gifts made or debts created before Budget Day.

Effective date of proposals: The Chancellor'a proposals will he effective for transfers on or after Bndget Day. CTT will continue to operate until Royal Assent te the Finance Bill gives full force to the proposed Inheritance Tax. The Inland Revenue propose te eperate the new rules provisionally for transfers on or after March 18. After Royal Assent, such cases will he finalised in accordance with the enacted legislation.

Consequential changes: The Chancellor proposes to make other censequential changes te adapt the existing CTT provisions to the inheritance tax regime. One existing rtlief for mntual transfers (Sections 148 and 149, CTT Act 1984) will be abolisbed fer transfers en or after Budget Day. Where a gift between indlviduals becomes *chargeable,* business and agricultural relief will be available provided the present conditiens are satisfied at the time ef the *gift,* and *also* that the *recipient* has qualifying property at the time of the donor's death.

CGT Interactions: The capital gains tax bold-over relief fer gifts will remain, subject to technical censequential amendments.

Thresholds to be raised

Following the Chancellor's speech the Inland Revenue issued the *follewing* statement on threshold and rate bands for capital transfer tax and inheritance tax.

The Chancellor proposes tn in-crease in line with the retail prices index the thresheld and rate bands for capital transfer tax, te be known in future as inheritance tax. The new rate bands will apply to transfera made on or after Bndgel Day.

The Treasury has issued today a atatutory instrumenl increasing tbe rate bands by the increase ln the retail prices index during the year ending December 1985, whicb are then rounded up to the nearest £1,000. Between December 1984 and December 1985 the retail prices index increased by 5.69 per cent. Section 8 ef the Capital Tranafer Tax Act 1984 provides for the capital transfer tax (CTT) thresheld and rate bands to rise each year

At present, CTT has two rate tables. One is for transfers on er within three yeara of death. The second, for other cbargeable transfers, bas ratea half those under the first.

THE BUDGET: Analysis

An advance, but not exactly the Loi Lawson

MR LAWSON's scheme to help turn Britain ioto a "shareowning democracy" through the introduction of so-called Personal Equity Plans marks only a modest response hy the Government to the regular pressure from the Stock Exchange and elsewbere for inceotives for investors to put their money directly in stocks. Most iovestors obstinately prefer to put their money in building societies, even though equlties bave given significantly higher returns over the past decade, as the Stock Exchange pointed out last month.

Although the Chancellor compares his scbeme to the Lol Monory in France — a plao emulated to various degrees hy other continental countries — this does not exactly amount to the Lol Lawson. The reason is that the crucial incentive of initial income tax relief is missing.

Whet remains is a regular savings plan of up to £200 a month within which dividend Income can he rolled up free of income tax, so long as the plan is maintained for at least a full January-Decemher calendar year. On termination, or intermediate switching, any profits are free of capital gains tax, although this may not amount to any great concession in practice for a smell investor who is anyway unlikely to use up his capital gains exemption of £6,300 a year.

The key question may be wbether investment management firms will be able to create a marketing focus which could attract investors into such schemes. Any manager legally able to deal in securities may become ao authorised PEP manager. Money from investors will then go into equities traded on a UK stock exchange. Investments may he chosen directly by the investor, or on a discretionary basis hy tha fund manager; either way, the PEP manager will have custody of the securities.

Presumahly a mechanism will be devised to enable PEP managers to claim back the tax on dividends, in a similar way to pension funds, although this has not yet been spelt out.

Over a period of years, the advantage of an extra percentage point or two of income, plus the absence of capital gains tax, will have a useful cumulative effect. Moreover the scheme will be flexible, because there will be no penalty from winding up the account apart from in the first year or ao. But it has to be said that the scheme can he flexible precisely because it confers no very great *initial* benefit on the saver.

For comparison, the Loi

Share ownership

BARRY RILEY

Monory — as amended by the incoming Socialist French Government in 1981 — allows 25 per ceot initial income tax relief on an investment of up to FFr 14,000 (£1,400) for a married couple. The investor is then locked in for five years before be can sell without incurring a tax penalty.

In the US, so-called Individual Retirement Accounts have become very popular. These provide full tax shelter for up to $2,000 a year, and investments cao be freely traded within the IRAs, but these are esseotially pension funds and cannot be liquidated without penalty until the investor is aged 59½.

The PEP plan is therefore not to be directly compared with either of these concepts; indeed, Mr Lawson is proposing separate measures in relation to personal pensions, with consultative documents later this year.

Direct equity investment is the specific objective of the scheme, in contrast to IRAs, where a wide variety of investments, including bank accounts, are permitted, and also with the Monory plans where investmeot is through special unit trusts (Sicavs).

Investment in unit trusts appears to be ruled out by the terms of the PEP proposals, although investment trusts would he acceptable. Presumohly the accounts must also be permitted to bold a certain amount of uninvested cash on a temporary basis. Whether the managers will be able to go fully liquld during a bear market is just ooe of many points of detail which will bave to be ironed out in due course.

The big challenge which needs to be faced by any scheme for wider share ownership concerns the uncertain economics of trading and holding relatively small amounts of equities. It is widely feared that commissions on small bargains will go np rather than down after next Octoher'a Big Bang. Sums of £200 or less a month cannot be invested without incurring considerable costs, though e lump sum of the order of £2,400, the maximum annual cootributioo, might prove a more economic proposition. It will also be hard to diversify the portfolio adequately.

Then there is the question of tha fees the PEP managers might want to charge. At presant, few managers are keen to manage equity portfolios of less than about £20,000, and it could take many years for individual PEPs to reach that level. Moreover, claiming back the tax oo divideods could prove administratively expensive.

However, PEP managers might reasoo that it would be worth weathering the uneconomic early year or two in order to reap the reward of managing swollen accounts later oo. This is bow it appears to have worked out in the US, where IRAs have become heavily marketed even though the annual contributions are smaller than are proposed for PEPs.

The Inland Revenue gives the example of an investor whose anoual £2,400 contribution could occumulate into a fund of £35,000 after 10 years.

Another thought which may cross the minds of potential PEP managers Is that a PEP client list could be a useful source of other kinds of business, fro minsurance to mortgages.

There is also the question of the unseen potantial which the ever-creative product designers of the *savings market* may well detect in the PEP concept. Could special high dividend investment trusts be devised, for example? Once PEPs have built up to a decent size after a few years, various kinds of income tax sheltering techniques may become worthwhile.

But barring unforseen developments, Mr Lawson's dream of a "drsmatic extension of share ownership in Britain" could take quite a while to be realised.

Cut in stamp duty leaves room for further reduction

THE CHANCELLOR went only half way yesterday towards meeting the City's hopes for a total abolition of stamp duty on share transactions in honour of the Big Bang. And he hroadened its scope too, adding a further tinge of disappointment. But the Governmant hopes the measures will cut the cost of investment for the UK's budding shareholder democracy, boost London's place in the increasingly competitive international securities market, and achieve a more even distribution of tax on financial transactions.

But It may also create new anomalies.

"We would obviously bave preferred to see the whole lot go. But we understand the constraints the Chancellor was working under," said a Stock Exchange spokesman.

The cut from 1 per cent to ½ per cent, which will take effect after Big Bang on October 27, is the second made by the Tory Government (it came down from 2 per cent in 1984). But it will still leave the UK with one of the highest taxes on share transactions in the world according to the stock exchange (New York has abolished them altogether). So while the cut should boost turnover on the London market It still leaves scope for another cut in the years ahead. The Bank of England estimated the last cut would raise dealings by 70 per cent over four years.

Mr Lawson implicitly recognised the continuing discrepancy with New York with one of the major additional measures announced yesterday: a new 5 per cent tax on the conversion of UK shares into American Depositary Receipts (ADRs), the form in whicb UK shares are now traded in their millions on Wall Street by investora seeking to escape UK stamp duty. At the moment, these conversions are charged at the normal stamp duty rate.

This new rate will affect all deals made after March 24 unless they were contracted for by last night. However, there was nothing in yesterday's Budget to force or encourage repatriation of existing ADRs (which are out of the UK tax net), so it will merely discourage the creation of new ones and not necessarily add mnch to London's turnover.

The 5 per cent tax will apply to shares transferred to clearing bouses where they are "traded" between investors without payment of stamp dnty. But there will be proposals to enable clearing houses to enter into similar arrangements as the Stock Exchange wbose clearing facilities are exempt.

The Chancellor has also taken a crack at the curreot multi-billion pound takeover wave in the City by extending stamp duty to acquisitions made in exchange for shares.

Unlike outright purchases of shares for cash (wbich are subject to stamp dnty in the normal way), exchanges got exemption in the last Budget. These will now be charged at the new rate of ½ per cent straight away. Other company rearrangements of sbareholdings which previously enjoyed exemption but were often ahused will also be charged, with the exception of genuine company reconstructions where there is no real change of ownership.

Non-taxable instrumenta such as letters of allotment are drawn Into the stamp duty net, too. So are "closing" traosactions made on the exchange between account day when people buy and sell the same shares without taking delivery of tham. This accounts for about 5-10 per cent of turnover.

Companies buying back their

Financial services

DAVID LASCELLES

shares will have to pay stamp duty as well.

One of the more controversial measures is the Chancellor's decision to withdraw the exemption from stamp duty enjoyed by loan stock—introduced in 1976 to encourage corporations to tap the UK debt market. This is part of the Government's effort to create more of a "level playiog field" between different types of securities finance.

However people in the City believed last night that this would have the douhle-edged effect of reducing liquidity in the loan stock market and therefore discouraging would-be issuers—and driving top corporate names to tap the obvious alternative, the Eurobood market.

The exemption of the Eurobond market where securities are not registered but traded in bearer form, was confimed by the Chancellor yesterday, presumably to avold driving this enormous market (which brings a lot of business to London) to some other more lightly taxed centre snch as Luxembourg.

Along with loan stock, Mr Lawson ended the exemptions for local authority stock—which will annoy the town halls—and for hulldog bonds—loan stock issued on the UK market by foreign borrowers. This, too, could encourage foreign corporations to tap the Euromarkets instead.

Overall, the package of measures will be revenue neutral. But the Chancellor Is probably giving away £200m by cuttiog stamp duty in half, half way through the year (the Stock Exchange estimates total abollition would cost £800m), and recouping the same amount hy extending the net.

Brewers cheer, but smokers lament

MR LAWSON'S generosity towards Britain's drinks manufacturers—oo duty increases on any alcoholic drinks—was matcbed yesterday by the harshness of bis attack oo the tobacco industry.

By giving an extra turn to the budgetary screw on cigarettes —11p on a packet of 20 is equivalent to more than double the inflation rate—Mr Lawson may have roused cheers among the anti-smoking lobby. But the reaction from manufacturers was one of tetchy resignation.

A packet of Benson and Hedges king size, Brtiaio's best-selling hrand, will now cost £1.50 and the cheapest own-brand imports will probably sell at about £1.15.

"It's brought a little glow to our cbeeks," said Action on Smoking and Health. Citing research by medical statisticians which suggests that the increase will depress cigarette sales by 2 per cent, the lohby group was particularly pleased that the Chancellor had specifically mentiooed "health grounds" in his justification for the rise.

By contrast, Mr Clive Turner of the Tobacco Advisory Council, an industry organisation, warned that more tobacco industry jobs could be at risk because of the increase.

One side-effect of the duty change, according to Imperial Tobacco, could be to suck in more cheap imports, further depressing trade for British companies.

Imports faltered last year when the 1985 Budget increase of 6p took retail prices of these products through the critical £1-a-packet price barrier. Even so, cigarettes from West Germany and other Continental countries have won more than 7 per cent of the market in just five years.

Manufacturers were reluctant to forecast detailed effects on the industry, but Mr David Redway of Imperial said that the usual post-Budget reaction was a fairly sharp fall in sales followed hy a gredual rise. Effects of the duty increase could also be mitigated by the continuing price-cutting war among retailers.

The British industry had a bad year in 1985. The 6p a pack duty increase at the Bndget,

Tobacco and alcohol

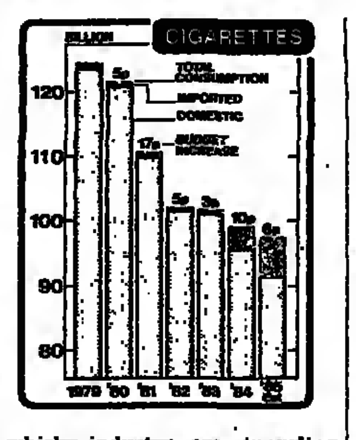
CHRISTOPHER PARKES AND LISA WOOD

competition from retailers' own brands and heavier pressure from the bealth lohhy are estimated to have knocked a further 2 per cent off volume sales.

In June Imeprial announced 1,700 job losses and Rothmans followed the announcement a few months later with a cut in its workforce of more than 400.

Britaio's drinks associations and retailers, meanwhile, were stunned by yesterday's announcement.

While consumption of alcohol geoerally is increasing in Britain, several alcohol producers, notahly in the Scotch



wbisky industry, are struggling to maintain sales. Sales of fortified drinks, such as port and sberry bave been declining. Beer sales bavealso been falling —down 12 per cent aince 1979. This trend was not helped by the fact that in 1984 duty on heer rose hy more than the rate of inflation because the Chancellor had to adjust the ratio of tax on beer and wine in response to an EEC ruling that Britain was discriminating fiscally in favour of beer.

In an attempt to write this mornings' newspaper headlines, the Brewers Society said simply: "Cheers, Chancellor. It is the first break for beer for seven years."

The Wine and Spirit Association said: "Sales and revenne will benefit because of the Chancellor'a acknowledgement of the trade's logical arguments."

The Scotch Whisky Association, while welcomiog the leck of doty increase, expressed disappointment that the Chancellor had not considered Its plea for a tax allowance to take account of the lengthy period for which whisky stocks have to be kept.

Better chance of hitting target

BY SETTING a mnch higher range for Sterling M3, the Chancellor has improved bis chancea of hitting his target for the growth of broad money.

He will bave a hardar task, however, in convincing the financial markets that this new and very wide range can bave much effect in maintaining downwards pressure on inflation.

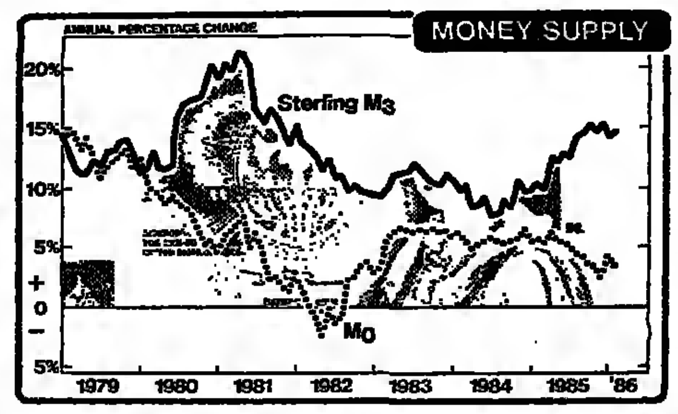
The Government's narrow money target, M0, which consists mainly of banknotes and coin, has never bad much credibility in the markets as an indicator of monetary conditions.

Sterling M3, whicb adds bank halances and interest-bearing deposits to M0, has previously commanded much wider support. Its recent bebaviour, has been more erratic and led to its suspension as a formal monetary target in Mr Lawson's Mansion House speech last October.

The new £M3 target announced yesterday, however, has come under immediate attack from monetarists and non-monetarists alike. Critics say that not only does it set a very high range of growth hut it sets it for one year only—not much of a medium-term financial strategy.

Measures of broad money bave persistently grown faster than narrower aggregates over the past six years as changes in the past six years as changes in the *financial markets* have altered the way in which their components are used by the public.

Competition between the hanks and the building societies —wbose daposits are not included in £M3—and high real interest rates have led to a



decline in the speed at which £M3 circulates in the economy.

At the same time, the velocity of circulation of MO has been increasing as such things as credit cards have reduced the use of cash. These velocity changes have made

Money supply

GEORGE GRAHAM

£M3s growth rate look higher—and MO'a lower—than had been planned in the Government's Medium Term Financial Strategy.

In his Budget speech, the Chancellor argued that the rise in MO's velocity has been steady and predictable and be therefora retained the same target ranges as given In the MTFS. The more rapid fall in velocity of £M3, bowever, allowa the range to be increased without departing from the MTFS goal of maintaining downwards pressure on the growth of money GDP and so on inflation.

The new target range for £M3 growth in 1986-87 is 11 per cent to 15 per cent compared with the target of 4 per cent to 8 per cent pnblished in last year's Budget. Growth in the 12 months to mid-February was 14.75 per cent—at the top end of next year's range. No target Is set for £M3 in future years "because the uncertainties surrounding its velocity trend are at present too great."

Mr Gavyn Davies, chief economist at Simon & Coates, the stockbroking firm, does not feel that this represents an adequate mooetary target.

He said: "The target range of 11 to 15 per cent looks totally derisory because it does much more than allow for the velocity change, and becausa a Medium Term Financial Strategy is supposed to bave medlum-term goals. No one is going to feel for a minute that interest rates will be set by this target."

Benefit focused on lower paid

THE CHANCELLOR chose in 1985 to increase personal allowances by 5 per cent more than inflation. This year, he bas favoured a cut in the basic rate of income tax to 29 per cent and has increosed allowances merely by the amount needed to keep pace with inflation. His long-term aim, like Sir Geoffrey Howe before bim, is a basic rate of 25 per ceot.

To weight the beoefit of the 1 per cent reduction in favour of those at the lower income levels, the thresholds for bigher rate taxpayers are increased by less than that required to compensate for inflation. Thus, the threshold for a 50 per cent taxpayer rises to £25,400, instead of £25,900, and for a 60 per cent taxpayer to £41,200, insteed of £42,700.

Tbere is also no corresponding 1 per cent reductioo in the bigher rates of tax and at the £17,200 level, the gap between

Income Tax

MALCOLM GAMMIE AND FRANCES CURRIE

the basic rate and the first higher rste becomes e substantial 11 per cent. The full benefit of the 1 per cent basic rate reduction is £172 and the cost of failing to index fully the higher rste thresholds is £160: a higher rate taxpayer is always £12 better off.

For individuals in employment, changes in National Insurance dominated the peraooal tax scene last year. The Chancellor made no proposals for change in 1986 and bas taken no further ateps, heyond tbose announced last November, to increase tha upper esrnings limlt.

For 1986/87 this limit is set at £285 per week (£14,820 per annum) and it has been those earning at around the upper earnings limit who heve done least well in terms of increase in real disposohle income.

Had the Chancellor this year used the £950m it cost to reduce the basic rste Instead to over-index allowancea, those at the £15,000 level would again have dooe relatively least well. The effect of the 1 per cent raduction is, however, to concentrate the maximum relief on those at the upper end of the basic rate band. This is illustrated in the charts, where the dip that occurred at this level has been ironed out.

The charts illustrate the relative change in disposable Income at five income levels since 1982 and offer a comparison between the family with two children, hut only one earner, and a similar family where both parenta work. It is assumed that pay over the period has risen in line with increases in average earnings.

The chart accordingly reflects the fact that average earnings (and therefore disposable income) have increased more quickly than inflation. Disposable Income has been calculated after incoma tax and National Insurance contributions have been deducted and child benefit added. The resnlting amount has been adjusted for inflation to demonstrate the real spending power of the net income available to the family in each year.

A reduction in the basic rate has a number of knock-on effects within the tax system: the value of covenants to charities and others alike is reduced by 1 per cent. Mortgage interest payments under the MIRAS scheme will rise to reflect tax relief at 29 per cent rather than 30 per cent and the rate of advance corporation tax on dividends is also reduced.

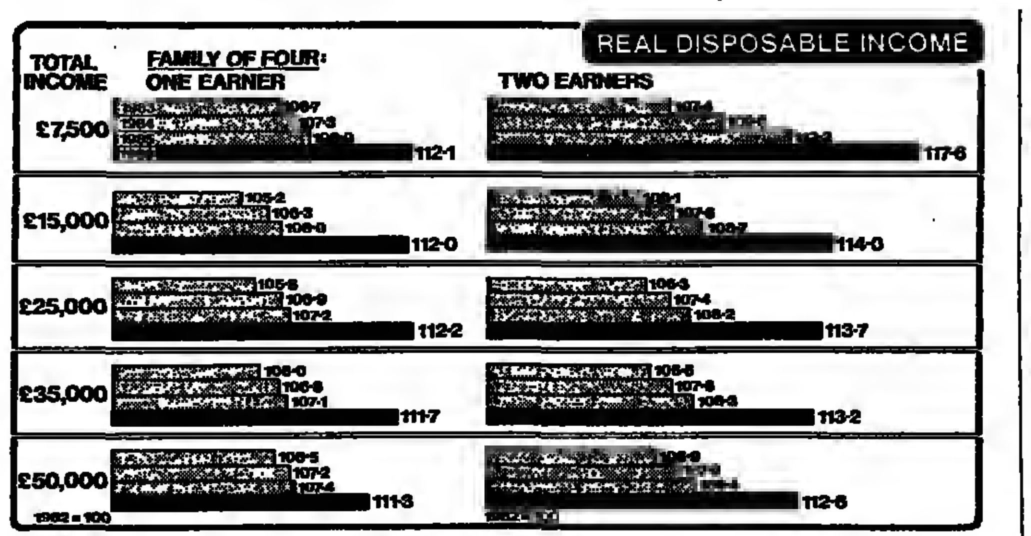
A reduction in the basic rate has a number of knock on effects within the tax system. Payments made under deduction of basic rate tax, such as rent paid abroad or interest payments made by companies will now be subject to a lower level of deduction. In particular, the value of covenants to charities and for example, by grandparents in favour of their grandchildren, will be reduced as the tax repayment given to the recipient will fall from 30 to 29 per cent.

Those wbose covenants are expressed in terms of the gross payment (rather than a net sum after deduction of tax) must from April 6 adjust the amount of tax they deduct from tha payment.

Of more general interest, mortgage interest payments under the MIRAS scheme will rise to reflect that tax relief is only heing given at 29 per cent. The effect of such a change may, however, be masked by a fall in interest rates later in the year.

The advance corporation tax payable by a company on Its dividends is also redneed from 3-7ths to 29-71sts, providing a shareholder with a tax credit reflecting his reduced basic rate tax liability.

For a company paying the full 35 per cent corporation tax rate after March this year, an incidental effect of this is to increase from 5 per cent to 6 per cent the amount of tax ultimately borne by the company whicb It cannot pass to its shareholders. A compaoy with profits of £100,000 or less can atill, however, pass to its shareholders a credit for the full amouot of tax it pays as the corporation tax rate on such companies is reduced to 29 par cant.



THESE charts illustrate the comparative increase in spending power of families with selected levels of income. At each level of income child benefit for two children has been included. The second income is assumed to be £2,750 througbout. The levels of gross earnings shown are those for 1986-87. Disposable income in earlier years has been calculated by adjusting back these earnings in line with changes in average earnings and deducting income tax and national insurance contributions. Spendable income has then been restated at its March 1986 valne, taking account of changes in the Retail Price Index. No allowance has been made for tax relief on mortgage interest or pension contributions.

Exemptions will halve tax bills

BRITAIN'S charities will save about balf their VAT bills—which total more than £20m a year — following the Chancellor's statement that from April 1 VAT zero-rating will be extended to several services provided by charities.

The Chancellor also annouoced measures to encourage charitable giving, including relief for single donations hy companies and introducing a scheme for tax relief for donatious by employees undar "payroll giving" schemes.

It was the VAT relief, however, wbich provoked most delight among Britain's charities. Since 1981 the Charities VAT Reform Group, with all-party support, has conducted e strong campaign for VAT exemption.

Yesterday's announcement is tha first acknowledgemeot of their efforts and Mr Tim Yeo, MP, a former director of the Spastics Society and chairman of the VAT Reform Group, said: "This is a considerabla triumph."

The group bad specifically lobbied for the aholition of VAT on medical products supplied to a charity and on non-classified advertising placed in a newspaper or mogazine for educational or fund-raising purposes. VAT was introduced on the latter last year and has caused charities considerable discomfort. The Spastics Society last Cbristmas abandoned its advertising because It could not afford the £15,750 VAT bill.

Britain's top 18 charities spend more than £2.5m a year

Charities

LISA WOOD

on print advertising and the zero-rating is estimated to save them £400,000. Other zero-ratings to be introduced by the Chancellor include that on sound recording equipment used by charities caring for the blind. This move will save the Royal National Institute for the Blind's Talking Newspaper more than £100,000 a year.

The Government said the VAT changes would cost more than £10m a year in 1986-87. However, the VAT Reform Group's estimates are more conservative, at £5m to £10m a year.

While charities welcomed tha Chancellor's measures to encourage charitahle giving they point ont bow far the UK still lags behind the US. Mr Brian Rix, secretary general of Mencap, the charity for the mentally handicapped, said that corporate giving in the UK amounted to millions whlle in the US it was billions.

The Chancellor announced three types of tax relief. In the past companies have only been allowed tax relief on covenanted giving over four years. From April 1 companies will be oble to claim tax relief for one-off gifts to charities. The relief will be on gifts up to a maximum equal to 3 per cent of the ordinary dividends paid hy tha company.

Secondly the Government will remove the present annual limit of £10,000 on the amount of payable through the deeds of covenant for which on individual taxpayer may claim bigher rate relief. At present individuals covenanting money to charities can deduct basic rate tax from tha payments which the charity can claim back.

In addition there will be a new scheme, from April 1987 to encourage individuals to make donations to charity through deductions from their wages and salaries. Employees in participating schemes will be able to get tax relief on donations of up to £100 a year. Depending on the response to the proposal it is estimated that tax recepits in 1987-88 will be reduced by about £60m.

Present rules for charitable giving can be abused and the Inland Revenue said yesterday that arrangements to curtail abuse would be oonounced in the Finance Bill with the aim of saving the Exchequer £20m a year.

Sir John Cox, director of the Spastics Society, said: "We have a better chance of getting money from this Budget than we have bad In those of the past five years." He described the idea of payroll deduction as "exciting" and said tax relief on gifts by companies of up to a maximnm equal to 3 per cent of their ordinary dlvideod as "very good." Most companies, be said, did not give 1 per cent.

Mr John Mayo, director general of Help tha Aged, commenting on the same measures said: "Both systems work well in the US. It will be a challenga and opportunity for charities in Britain to make them work here."

Hope of extra £10m a year for the arts

MOST arts organisations are registered charities aod thus benefit from the incentives the Cbancellor announced to encourage charitable donations from companies and individuals.

This Is in lioe with the Government's long-term inteotion to build up corporate sponsorship of the arts to halance its own funding through the Arts Council. Corporate sponsorship has grown from around £600,000 to £20m a year in the past decade. The Arts Council estimated that the new measures could increase spending oo the arts by st least £5m a year.

Mr Colin Tweedy, of the Association for Business Sponsorship of the Arts, which cooducted a successful lobbying campaign for charitable tax relief, said that the arts could galn as much as £10m a year, with the sum appreciating rapidly in the future.

Companies will be able to obtain tax relief on up to 3 per cent of their dlvideod payments if they give the money to an arts organisation which is registered as a charity. The relief is less than the 5 per cent on pre-tax profits sought by the association but it marks a significant breakthrough. According to Mr Tweedy, the traditional method of supporting the erts through four-year covenants will fade away.

The changes allow Individuals tax relief oo gifts of up to £100 a year so long as these are mede directly from pay via employers. "This opens the door to enterprising arts companies to begin to huild a new source of revenue," says the Arts Council. At the moment there is little private charitable giving to the arts in the UK. The removal of an upper limit on individual convenants should also help considerably.

The thrust of the changes Is to bring arts funding in the UK closer to the US pattern where

The arts

ANTONY THORNCROFT

most finance comes from corporations and individuals rather than governments. In the US the arts receive about $1bn a year from companies and much more from individuals. The incentives announced yesterday, bowever, are much less generous than those in the US.

Even so ABSA will now have a mucb easier task in persuading companies to support arts organisations end events, and to encourage existing sponsors to spend up to the 3 per ceot. The Arts Council has welcomed the innovation, but, along with its clients, will be concerned that It is not used as an excusa hy the Government to cut its own expenditure on the arts. Mr Richard Luce, the Arts Minister, who must take eredit for the reform, has often stated that the arts must look for extra revenue to sources other than the Governmeot.

The arts will also gein from the abolition of VAT on its advertising. Theatres, orchestras, arts centres and the Arts Council itself are quite significant display advertisers and this will be a welcome saving.

THE BUDGET: Analysis

A boost for the risk takers

YESTERDAY'S changes to the Business Expansion Scheme were greeted with loud applause by small business lobbyists, investor groups and professional advisers alike.

The reforms will make it much harder for heavily asset-backed companies to make use of the scheme, which enables individuals to claim relief at their top marginal rate of income tax on investments in unquoted companies up to £40,000 per annum.

Moreover, the lifting of capital gains tax on the first disposal of shares in BES companies issuing equity after today will provide an important extra attraction for investors.

Mr David Trippier, minister for small firms, said: "I warmly welcome the fact that he has lifted CGT for the scheme."

The move will also, say some observers, make it more attractive for people to invest in riskier ventures with higher performance potential than the asset-backed proposals which have damaged the scheme's reputation in recent years.

Mr Michael Grylls, chairman of the Small Business Bureau, said: "These changes will encourage more investment in productive industry."

Mr Brien Wright, director of the London Enterprise Agency, which provides small businesses with help and investment advice, said: "Now we can really get the BES working for the riskier investments. I am over the moon."

The BES was shown yesterday to be a highly successful source of new equity finance to small businesses in a long awaited and detailed report by Peat Marwick, the accountancy firm. However, the report, which covers the scheme's first year in 1983-84, also demonstrates clearly that the growth in popularity of secure ventures which could have raised normal commercial finance was damaging the smallest and riskiest companies' chances of attracting funds.

Mr Lawson moved yesterday to destroy many of the sources of those anxieties. The extent of his reforms were unexpected since most observers believed that any radical changes would not come until next year when the BES was due to run out—until yesterday's widely-welcomed decision to make it permanent.

The door was slammed firmly against asset-backed ventures with Mr Lawson's ruling that businesses with more than half of their net assets in land or buildings are to be exempt from

Business expansion scheme

WILLIAM DAWKINS

the scheme, except for the first £50,000 of share capital issued in a year. Also out are ventures whose main purpose is to hold goods for investment, such as antiques or fine wine, which were popular in the flood of BES issues rushing to raise cash before the Budget.

BES relief is also to be denied to investors in companies which do not actively try to sell goods held as investments. The same applies to wholesalers which do not sell to retailers. The changes take place for shares issued from today.

Mr Charles Fry, chairman of Johnson Fry, the licensed securities dealer which specialises in promoting asset-backed schemes, was undismayed by the crackdown.

"The ruling on 50 per cent of net assets does not worry us. It's a perfectly reasonable concept, bearing in mind that most BES investors get 50 per cent tax relief in the first place," he said.

Meanwhile, the scheme is being opened up to British ship charterers so long as the charters do not run for more than a year. This is a result of intense lobbying by shipping groups which felt they had been left out of the scheme unfairly.

Another important change — and one that meets a criticism of the BES voiced in the Peat Marwick report — is that changes to the rules can now be made through statutory instrument. This means that abuses can now be stopped as frequently as they arise, rather than having to wait until the next Budget.

A less important change but one which still meets an often heard criticism of the scheme, permits BES companies to have overseas subsidiaries. This will benefit fast-growing, high technology ventures which need to operate in foreign markets.

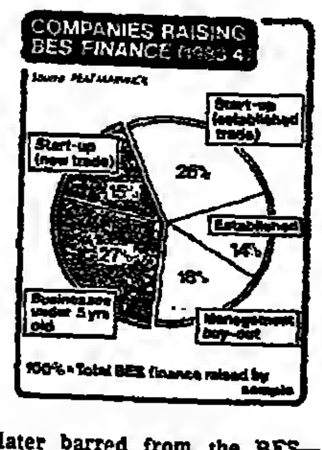
Wide ranging though yesterday's reforms to the BES might be, several widely-sought changes have been left out. Company proprietors will from now on be allowed to take share options without losing tax relief for investors but they are still not allowed to claim BES relief on their own account for investments in their own companies.

This omission was mourned yesterday both by the Confederation of British Industry and the Association of Independent Businesses.

The favourable treatment meted out to the BES yesterday might have had something to do with the positive report it received from Peat Marwick, in spite of the concerns expressed in the study.

Its popularity was further underlined with yesterday's release of Inland Revenue figures showing that 688 companies raised £136m under the BES in 1984-85, well up from the £105m raised by 715 ventures the previous year.

According to Peat Marwick, 70 per cent of the money invested in 1983-84 except for farming ventures which were



later barred from the BES—could not have been raised as equity without the scheme. The 1983-84 companies produced 4,000 extra jobs and about £100m in additional turnover within a year of getting BES investment.

It also suggests that the BES has helped entrepreneurs to raise small sums below the level normally handled by City institutions. About one-third of the 120 companies surveyed by Peat Marwick raised £50,000 each, as against 50 per cent for the scheme as a whole, although they accounted for only 3 per cent of the total amount raised by the sample.

The survey also points out that BES funds, which invest in a spread of companies and represent nearly 40 per cent of BES investment, are still not active below £150,000.

The main concern highlighted by the report was that a trend since 1983-84 towards less risky investments might draw money away from BES funds seeking to provide a balanced portfolio and so make life harder for those ventures the BES was intended to support.

The report says the shift corresponds with a tendency towards making larger investments — and this can have a dramatic impact on the cost of the scheme to the Inland Revenue.

The 4,000 jobs produced by the 1983-84 ventures each cost an average between £8,000 and £13,000 in terms of tax relief. But that rises sharply to £67,000 for proposals raising £1m — the average investment in Peat Marwick's companies was £235,000.

The report makes no attempt to cost for the more ambitious property development groups — one of which raised £10m — which were thrown out of the scheme in the 1985 Budget.

However, Peat Marwick's arithmetic alone was enough to give the Chancellor a compelling reason to shut asset-backed schemes as firmly out of the BES as he did.

A new life for the loan scheme

THE GOVERNMENT'S move to breathe new life into the Loan Guarantee Scheme was yesterday given a warm welcome by small business groups. The scheme has not only been extended for three years but the premium payable over the banks' own interest rate has been reduced from 5 per cent to 2½ per cent.

"We are delighted to see the LGS extended, and the reduction in the premium should make a real difference to our members," a spokesman from the National Federation of Self Employed and Small Businesses said yesterday.

The scheme, under which the Government guarantees 70 per cent of qualifying bank loans to small businesses, was introduced in 1981 and has been a major plank in the Government's small business policy. Higher than expected losses, however, forced Ministers to raise the premium, thereby making it less attractive to users and encouraging fears that it might be scrapped.

Mr David Trippier, small firms minister, said yesterday: "I am a happy man. The Budget is a clear recognition of the importance of the small firms sector. At last we have a Loan Guarantee Scheme we can sell."

He pointed out that the 2.5 per cent premium on the 70 per cent of the loan was equivalent to only 1.75 per cent on the

Small business

LUCY KELLAWAY

entire loan. Since June 1981 the LGS has helped nearly 17,000 businesses raise money.

The Budget changes to Capital Transfer Tax will also have an important effect on small businesses and go a long way towards meeting the lobbies' pre-Budget requests. A spokesman from the Union of Independent Companies said that the abolition of the lifetime gifts tax would "enable a lot of independent companies to pass their shares to the next generation of managers without complicated tax planning." He said that CTT at the moment encouraged many companies to be taken over rather than to be passed down from one generation to another.

The reduction in the rate of Corporation Tax on small businesses from 30 per cent to 29 per cent, in line with the drop in the basic rate of income tax, is expected to have little effect. It falls well short of demands for a new lower bottom band of tax for small business at 20 per cent.

The increase in the VAT threshold by no more than the rate of inflation will also be seen as a disappointment by many small businesses. They had asked the Chancellor for a rise in the threshold from £19,500 to £50,000.

Doubts remained yesterday whether the Government had gone far enough to make life easier for small businesses. Some would like to see the LGS extended indefinitely and its costs cut further. There were also hopes that profits retained within unincorporated businesses would be taxed at corporation tax rates not at the higher rates of personal income tax.

"We had hoped this would be a radical budget for small businesses," said a spokesman from the Association of Independent Businesses, "but we are slightly disappointed. There have been no radical job creating schemes for our members."

Changes mooted in pay, performance relationship

FAR-REACHING changes to the relationship between employees, their levels of pay and the performance of their companies were mooted by the Chancellor.

Having introduced, and then expanded, a voluntary system of employee share ownership in recent years, Mr Lawson intends to discuss with employers ways of introducing *full profit-sharing schemes*, already widespread in countries such as the US, Japan, West Germany and in Scandinavia but still rare in Britain—one notable exception is the John Lewis Partnership.

The schemes offer two main attractions: motivation of the workforce and increased flexibility for employers in patterns of remuneration.

When demand falls and business temporarily tails off profit-linked payment systems mean there is less pressure to make people redundant than when rigid wage structures mean overheads cannot be substantially cut. This has been especially important in Japan where the paternalistic nature of much industrial employment is expected to offer secure, almost guaranteed, employment.

There is a variety of types of profit-sharing schemes. Some are direct and pay a share of the profits as a lump sum or as an addition to wages, based on the company's annual results. Others, such as deferred schemes stack up accrued profit rights towards retirement and pension entitlements.

A simple and typical direct scheme, with substantial industrial democracy, would share increases in real profit equally between employees and shareholders.

A minimum shareholder allocation is used to ensure that the shareholders' real share of pre-tax profits is maintained. Once this amount has been set it is indexed annually against, say, the retail price index.

Other losses, investments and extraordinary items are then also deducted from the pre-tax profit and the net amount left for distribution is split, half going to employees and half to shareholders.

Many schemes are a good deal less generous, however, than an equal split of profits remaining. The Ford Motor company in the US, for example, set up a scheme into which it planned to pay a maximum 15 per cent of US pre-tax profits in years in which it made at least a 6.9 per cent return on sales and no payout at all in years where the return on sales did not achieve 2.3 per cent return.

The distribution can be split in a group of companies so that a portion reflects the performance of the employee's particular company and part reflects

Profit sharing

ROBIN PAULEY

the performance of the whole group. Limits can be put on the maximum amount of individual gain in a year—25 per cent of 33 per cent of salary, for example.

This works well for employees in years of high profitability. When times are harder and margins are squeezed, the shareholders' interests are protected first through the minimum shareholder return which has to be achieved before employees can take out any profits.

However, employees have the additional protection of continuing to negotiate an annual non-profit-related pay increase with employers, usually based on, and settling around, the *rate of inflation*.

The *rub* for employees comes when companies start to do really badly and turn in losses. The cost of staying on the payroll then involves a sense of corporate identity strong enough to take a real pay cut and share in the company's misfortunes.

There have been numerous examples of these sort of arrangements in the US where more than a quarter of all employees — more than 20m workers—are in profit-sharing plans, quite apart from stock ownership plans equivalent to Britain's Save as You Earn share ownership plans.

In the early 1980s both Eastern Airlines and Braniff International created profit- and loss-sharing plans which, in addition to requiring pay cuts, set bands so that employees could receive between 80 per cent and 110 per cent of their normal pay, according to the state of the company's balance sheet.

Wider spreads of 85 per cent to 115 per cent were recorded in, for example, the trucking industry.

The Fisher Price toy company pays out more than 20 per cent of all US pre-tax profits to its US workforce, giving workers several thousand dollars in cash each year. The result, according to the company, is a highly-motivated workforce.

The oldest continuous profit-sharing scheme in the US is at Procter & Gamble which started in 1887. Eastman Kodak, Sears, Roebuck and Johnson Wax all have schemes going back to 1910-1920.

The Japanese and Europeans have been slower in taking up the scheme. Leading profit sharers include Hotel Plaza Athenee of France, YKK Manufacturing of Japan, Svenska Handelsbanken of Sweden and Nestle of Switzerland.

The West Germans in particular have taken the ideas further in some companies where they are part of wider worker democracy to the extent of involvement in the full management procedures through the "mitbestimmung" schemes.

The schemes have become so important in Japan that the "flexible compensation programme" is now the norm: base wages are very modest throughout Japanese industry and are topped up twice a year, through cash profit-sharing bonuses which usually amount to between two and eight months' pay.

This gives substantial income in good years but low total income in bad years while enabling the companies to continue employing more or less the entire workforce.

In recession the Japanese cut compensation while the British practice has been to cut jobs.

In a recent report on Japan, the Paris-based Organisation of Economic Co-operation and Development noted very low rise in wages.

"In addition, bonus payments rose by over 5 per cent owing to the better corporate profitability. Consequently total cash earnings rose by 4.5 per cent, or 1 per cent faster than the previous year. Moderate wage gains together with a cyclical improvement in productivity led to a sharp fall of unit labour costs in manufacturing," it said.

Abolition of tax is the culmination of a gradual trend

THE ABOLITION of capital transfer tax on lifetime gifts is both radical and unexpected. Yet a look at previous Tory budgets since 1979 shows it to be the culmination of a gradual but consistent trend away from the idea of a comprehensive gifts tax and back firmly in the direction of CTT's predecessor, Estate Duty, the so-called "voluntary" tax.

In recognition of the fundamental change in the nature of

Capital taxation

DAVID COHEN

the tax, the Chancellor has decided that it is now to be *known as Inheritance Tax*. Strictly speaking, Estate Duty might have been more accurate. The new tax will be borne by the estate of the deceased prson rather than by his or her heirs.

Similarities with the old estate duty abound and venerable lawyers will no doubt be dusting down neglected tomes *on the old tax*.

Just like estate duty, the new tax will be levied on the aggregate of a person's estate and all gifts which he makes during the seven years preceding death. Also as before, there will be a tapered reduction in tax payable on transfers between three and seven years before death; gifts within three years of death will be taxed in full, as they have been under the CTT rules until now.

However, a significant difference is that there will continue to be a lifetime charge—at half the death rate — on gifts into and out of trusts, the only exceptions being accumulation and maintenance trusts and trusts for the disabled. Lifetime gifts involving companies will also continue to be taxed.

Even leaving this aside, it would be a mistake to suppose that the reversion to estate duty principles will remove all the pitfalls involved in lifetime generosity.

Where the donor of an asset continues to obtain some benefit from the asset after he has given it away, the asset will be deemed to remain his property until the date at which the benefit ceases. The asset concerned will be taxed on its value at that time. Obvious examples are a home owner who transfers his property to his children but carries on living there or a shareholder who gives away his shares but retains voting rights over them.

Another anti-avoidance measure prevents the artificial manufacture of debts as a *means of reducing a deceased* person's estate. Certain estate debts will be disregarded for Inheritance Tax purposes if the person to whom the debt is owed had received gifts from the deceased or if the debt was not incurred for full value.

Where a gift with reservation is made to a trust or a company there will also be a tax charge at the date of gift though credit will be given for this when the full tax charge arises on the donor's death.

Producers welcome company car move

FORD AND Austin Rover, BL's *volume car subsidiary*, last night welcomed the Chancellor's decision to change company-car taxation rules so that from next April engine-size breakpoints will be 1,400 cc and 2,000 cc. This will bring breakpoints into line with proposed EEC car-exhaust emission regulations.

Without the change the companies would have faced extra costs to develop power units to suit demand in the UK—where current engine-size breakpoints push company-fleet buyers into cars with engine capacities of just under 1,300 cc or 1,800 cc —as well as engines to suit continental markets.

The Society of Motor Manufacturers and Traders advocated the change even though only Austin Rover and Ford, which has based most of its engine development in the UK, are affected. General Motors, the Vauxhall-Opel group, and Peugeot-Talbot import most of the engines for the cars they sell in Britain.

The society said last night that if the Government had not acted UK manufacturers would have faced increased costs and reduced exports and employment.

It was far less happy about the Chancellor's decision to raise the year-on-year benefit scale charges by more than 10 per cent in most cases. "The Treasury has failed to understand the role of the company car as a tool of commerce and industry," it said.

Previously the Chancellor indicated he intended to keep increasing tax charges for company cars at a rate much higher than the inflation rate. In last year's Budget he raised

Vehicle taxation

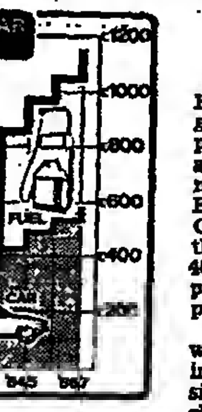
KENNETH GOODING

scale charges by more than 9 per cent.

The Freight Transport Association last night said the present system treated unfairly the many employees provided with a car simply to do their job. It said the £8,500-a-year pay threshold denoting higher paid employees had not been changed since 1979 and was grossly out of date compared with government statistics which showed average earnings to be £10,005 a year.

The Inland Revenue said the proposed steep jump in charges was caused by the restructuring of the scale for the change in engine-size breakpoints. Cars in the 1,300cc to 1,400cc and the 1,800cc to 2,000cc bands would actually attract reduced charges.

A typical company-car driver who pays the basic rate of tax,



with a 1,600cc car less than four years old, will pay £3.90 a week in tax in 1987-88, compared with £3.33 a week in the past 12 months.

The 10 per cent general rise to car-benefit scales will not apply to car-fuel benefits. These are being kept at broadly the 1986-87 level, as adjusted for new breakpoints.

The road haulage industry welcomed the Chancellor's decision to freeze most vehicle excise duties at current levels. The Road Haulage Association said: "We hope the oil companies will take the Chancellor's hint and not pass on the increase in duty on diesel fuel at the pumps."

The Freight Transport Association, however, said that if diesel duty were passed on in full it would add about 1.25 per cent to vehicle operators' costs and raise UK industries' costs by £200m-£130m in extra petrol duty for company cars and light vans, and £70m in extra diesel fuel duty.

More freedom for employers

EMPLOYERS will be able to get money out of their company pension scheme when it has a substantial surplus without negotiating with the Inland Revenue as a result of the Chancellor's proposals. But they will have to pay a tax of 40 per cent on the refund, irrespective of their company's tax position.

Indeed, the new proposals will stop pension schemes building up substantial surpluses, since they will be obliged to check the situation regularly and take remedial action.

Occupational pensions schemes are currently in a sound financial position thanks to buoyant stock markets, worldwide, lower than expected salary and earnings increases and reductions in the numbers *of members* of schemes through redundancies

This actuarial freedom has resulted in *considerable* differences of opinion between actuaries over the size of the current surplus.

So in future, actuaries will determine the surplus on a standard valuation basis, valuing the liabilities on the "projected unit credit" method and prudent assumptions determined on the advice of the Government Actuary.

The proposed actuarial basis is a very conservative one, which takes into account the pension benefits acquired to date by employees allowing for future salary increases up to retirement. It is still the basis, with *minor variations*, commonly used by actuaries.

The statement from the Revenue makes no *reference* to the valuation of assets. Many *actuaries* do not use market values. Instead they *discount* the expected income returns on the *assets*, *largely ignoring* capital profits and the ground that pension funds are still growing and any asset realisation has to be reinvested.

The Revenue will shortly be issuing detailed guidelines on the basis and the assumptions that will include the method of valuing assets.

Valuations will be required at least once every three years —the current norm. When the surplus at any valuation exceeds

Pension funds

ERIC SHORT

5 per cent of the value of the liabilities, the trustees will be required to reduce the surplus to at least this level.

But now the trustees have a free hand in how they *reduce* any excess surplus without protected negotiations with the Revenue. They can:

- Increase benefits up to *Revenue limits*.
- Give a contribution holiday to employers and/or employees *for a maximum period* of five years.
- Make a refund to the employer.

However, if the first two methods still do not bring the surplus down to the 5 per cent level, then trustees must make a *refund*, with its attendant tax penalties. The size of any refund must not take the surplus below the 5 *per cent* figure.

The refund will be subject to a special free-standing tax charge of 40 per cent which will not be offsettable against any other tax liability of the employer. This is designed to recover the tax relief given previous on the employers contributions to the scheme and the tax free roll-up of the investments. The trustee will deduct the tax and remit direct to the Revenue.

The new system will provide a number of revenue offsets against the present cost of tax relief to pensions, from income tax on increased pension benefits to employees, the tax on employees' earnings and company profits saved from the *contribution* holiday and tax on the refunds. The proposals will result in extra in revenue for the Chancellor. This will arise from income tax on higher pensions, tax on employee earnings and company *profits* which have been boosted by the contributions holiday, and tax on the refunds.

The Chancellor's proposals are intended to clear up the current uncertain *position and* prevent pension schemes using *their* favourable tax situation to build up surpluses.

The surplus in a pension scheme represents the excess of the value of the scheme's assets over its liabilities. This in turn depends on the methods used by pension actuaries to value both the liabilities and the assets.

At present, actuaries are free to use their professional judgment in their *valuation* of both assets and liabilities.

His initial reactions were that a 5 per cent limit and a five year contribution holiday were to tight — 10 *per* cent and 10 years were more appropriate. It was vital for actuaries to have a period of *consultation* with the Government Actuary prior *to* basis being published. His association would be seeking consultation at an early date.

The actuarial profession is close knit and relationships between the Government Actuary and the profession cordial so that such consultations should be easy to arrange.

Promoters warn of price rises

HIGHER ticket *prices* and a possible reduction in the flow of top foreign entertainers and sportsmen to the UK were forecast yesterday by leading promoters in response to the Inland Revenue's plan to catch them in the UK tax net.

The Chancellor announced the introduction of withholding tax, at the basic rate of 29 per cent, on the UK earnings of overseas sportsmen and entertainers. This is expected to bring in £75m in 1987-88 and £100m in a full year.

"Boxers will say: 'This is what I expect to earn so you have got to put prices up to balance tax,'" said Mr Mike Barrett, of Barrett Duff, promoters of the recent heavyweight fight between Frank Bruno of the UK and Gerry Coetzee of South Africa.

"In the past US boxers—and the US is where the main supply comes from—have not paid tax here but they have paid it in the US. It will mean, as I see it, an increase in ticket prices. The extra cost will be met by the paying public," he added.

Mr Barry Marshall, of Marshall Arts, an entertainments promoter, said: "This could make a great deal of difference. Our business has already been hammered very hard by the im-

Foreign entertainers

CHARLES BATCHELOR

position of VAT on theatre tickets.

"Artists can't earn the sort of money in Britain that they can in the US. Already there is not the number of foreign entertainers there used to be. They are cutting down on the length of tours."

Mr Barry Clayman, a director of Management Agency and Music, which promotes artists such as Shirley Bassey and Neil Diamond, said: "I can only think this will deter people from coming here. The tax-*man might* even lose revenue. An awful lot of American artists don't need to come to this country. They will stay in Atlantic City or Las Vegas."

Mr Harvey Goldsmith, promoter of stars such as Bruce Springsteen and David Bowie, commented: "I am not very thrilled at becoming an unpaid tax collector. This is basically a tit for tat move against the US.

"If US entertainers get set UK tax against their US tax bill there will not be such a problem. But a lot of American entertainers structure their affairs so that they have in effect non-profit corporations. They will not be able to use any UK tax credits."

By requiring promoters or organisers to deduct tax from the payments they make to artists or sportsmen the Revenue will be reasonably sure of collecting its due. At present, it believes many *artists on* short-term tours simply evade UK tax.

The Revenue believes at least one-third of the £75m tax take will come from preventing *evasion*. Two-thirds will come from Britain sharing in the tax payments currently made by performers to their domestic tax authorities.

Direct challenge on petrol price

THE CHANCELLOR may have given *the* oil companies the rough edge of his tongue on the subject of their profits *on* petrol sales but his Budget was nevertheless kind to them on the whole.

The rise in petrol duty

Oil

MAX WILKINSON

equivalent *to* 7.5p on *the* price of a gallon of four-star was only about 2p more than needed to keep pace with inflation. It was much less than the increase of about 15p or so which some people in the industry feared might have been imposed to compensate for the general fall in oil prices.

Nevertheless, Mr *Lawson* threw down a direct challenge to the oil companies to absorb the increase, including the inflationary element. He said that although petrol prices at the pump had fallen by 15p *since November they* could have fallen a further 12p if the oil companies had brought *pump prices* down in line with crude prices.

This is broadly in line with the estimates of independent analysts based on the fairly rapid fall in the price of petrol cargoes on the Rotterdam spot market and *taking account of* the fact that more than half of the pump price of petrol represents tax.

Mr David Gray, oil analyst for the broker James Capel, for example, estimated recently that oil companies could break even at a pump price of 160p, compared with the average of about 174p now.

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However, the Chancellor has shrewdly calculated that the revival of competitive forces in the petrol market is likely to mask the effect of his fairly *modest increase*, if not offset it altogether.

Prices now being charged vary from less than 160p per gallon to about 180p in parts of the country with quite sharp changes between petrol stations even a *few* miles apart. The difference in prices seen on one journey may therefore be more than equal to the total amount of the increased imposed by the Chancellor.

Moreover, a change in the way that petrol and diesel duties are levied will make an *important* psychological difference to the timing of increases.

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A supply-side mini-budget

MR NIGEL LAWSON, following one of the artistic fashions of the moment, is a very able minimalist. Given hardly any room for fiscal adjustment, he has contrived a penny cut in income tax to catch the headlines, partly financed with a small claw-back from the highly paid, and offered a glimpse of a new vision of a profit-sharing democracy. If he has a strategy, it is to lay increasing stress on supply-side measures, aimed above all to improve the workings of the labour market. The medium term financial strategy is rhetorically intact, but becoming steadily vaguer in operational terms. There is a modest package of measures affecting the City which appear ill-considered, some controversial but still green proposals for the reform of personal taxation, and barely a passing mention for industry's exchange rate worries. Not so much a curate's egg as a Chinese meal of a Budget, with some tempting flavours, some less so, and unlikely to satisfy the appetite.

The most important proposal, in its long-term potential, is still in the future: Mr Lawson will discuss with industry how he might encourage effective schemes to encourage profit-sharing as an element in industrial rewards. As Japanese experience has shown, profit-sharing has enormous potential in encouraging constructive industrial relations, and in enabling industry to adapt to changing cyclical and competitive conditions by allowing rewards to fall in line with market returns, rather than sacking people.

The industrial relations climate is by now ripe for such a development, and—just as important—non-oil industry now has some worthwhile profits to share. The forecast return on non-oil investment for 1986 is some two-and-a-half times its low point in 1981, and nearly back to the levels of the mid-1960s. The workforce is at present claiming its share of the radically improved cash flow through excessive wage increases, too readily conceded. It is sad that the Chancellor has had to take the initiative here: industry should be taking the lead, not waiting for bribes.

Most of the Chancellor's more immediate measures are welcome as far as they go, but are likely to earn higher marks for political acumen than for economic sophistication. The cut in income tax, combined with under-indexation of the higher rate bands, is both welcome and ingenious—and will just about leave the average smoking wage-earner back where he started. The scheme to allow individuals to accumulate a personal retirement fund in a tax-free portfolio should encourage personal share-ownership, and has the great advantage to the Treasury that its revenue cost will only build up over a long period of years. The abolition of tax on gifts *inter vivos*, after all the previous nibbles at Capital Transfer Tax, was virtually a tidying-up operation.

If there is a strategy at work here, however, it is undeclared. Mr Lawson seems to move inch by haphazard inch towards an expenditure tax, a principle he has explicitly rejected, but there is still a very long way to go. Meanwhile we do not have even the routine commitment to fiscal neutrality, and indeed in its modest way this is an interventionist Budget, not a neutral one, encouraging profit-sharing, charity and employment, discouraging smoking.

So far, so good; but if most voters will be pleasantly surprised, three groups will be less happy—the poor, the professional economists and the financiers. The poor get nothing at all, except those of the unemployed for whom jobs may now be created. Mr Lawson has been admirably frank in the past about the scandal of the poverty trap, which leaves little or no incentive to work at low pay levels. It is sad that he has let a year pass without doing something, however modest, to reduce it.

Protectionism

The financiers will simply be annoyed. They were resigned to paying for the abolition of stamp duty, but to be left with half of it, with the attempt to collect duty on whole new classes of transactions—some of which are virtually unmanageable, and others which will simply go offshore—looks plain ham-fisted. The 5 per cent duty on the transfer of securities to authorised depositaries overseas is worse—it is more or less naked financial protectionism. It is neither logical nor neighbourly to try to maintain London as a major international capital market while trying to prevent UK-originated business being shared overseas.

There is happily time to improve these measures during the passage of the Finance Bill; but there will be no opportunity then to fill in the blanks in the Budget—to explain how Sterling M3 can remain a meaningful target when the Government has explicitly abandoned overfunding, its only means of counteracting the growth of bank credit, to discuss the creation of a sterling commercial paper market (which would let the private sector control M3), or for that matter to mention the European Monetary System. Industry has stated a case which deserves an answer.

Mr Reagan and the Contras

PRESIDENT REAGAN is seeking a fourfold increase in congressional funding for the "contra" rebels fighting against the Sandinista government in Nicaragua. He has appealed for this on television directly to the American public in the build up to a vote in the House of Representatives tomorrow. If approved, the contras will receive $100m, permitting not just the "humanitarian aid" of last year but the acquisition of sophisticated military equipment.

This would be a serious escalation of American involvement in Nicaraguan politics and in the Central America area as a whole. Yet the request is being made on an unacceptably crude basis of the need to "get tough" with Communism. President Reagan is exaggerating the threat and exaggerating the response.

According to Mr Reagan, Nicaragua has become a Soviet toehold in Central America; if not checked, the contagion will spread, damaging not just the vital interests of the US but those of the West as a whole. The reality is more mundane and less alarming.

With a population of less than 3 million, Nicaragua is one of the poorest countries in Latin America. It is being impoverished further by the crippling cost of the war against the contras. The Soviets and the Cubans have stepped in with military aid, but the Soviets in particular have been extremely cautious. There is no evidence they are willing to confront the Americans over Nicaragua.

If there was any danger of the contagion spreading, Mr Reagan can claim success in having checked it. Nicaragua today is cowed by a combination of US economic embargoes and Washington's war waged by proxy through the contras. But Mr Reagan no longer seems content with this. He appears to want to overthrow the regime.

On present form, the contras are not going to be able to do this. During the course of the past 12 months they have suffered a series of military reverses, with perhaps no more than 3,000 men now operating inside Nicaragua. The majority, around 12,000, are quartered inside Honduras. The new Honduran president, Jose Azcona, is deeply embarrassed by this presence; the armed forces are divided as to the level of American involvement that should be allowed on Honduran soil. If $100m goes to the contras, then it will be disbursed through the good offices of Honduras.

Greater Honduran involvement in turn raises the prospect of border flare-ups with Nicaragua or direct conflict between the two states. The commitment to upgrade the contra forces locks the Reagan Administration into a classic spiral of escalation.

Fears that the situation could get out of hand have led Central American governments, prodded by their colleagues elsewhere in Latin America, to reassess the flagging Contadora *peace initiative*. This is the plan for a Central American peace treaty, proposed by Colombia, Mexico, Panama and Venezuela and now backed by Argentina, Brazil, Peru and Uruguay. The first fruit of the revived Contadora process came last week with Costa Rica and Nicaragua signing an agreement for joint supervision of their border to prevent contras using Costa Rican territory.

The Contadora approach is an excellent one, provided that the group can deliver more than good intentions. The Contadora countries need to assume more responsibility in order to bave more influence.

THE BUDGET: Analysis

ECONOMIC ASSESSMENT

Lawson looks ahead to the 1990s

By Samuel Brittan

THE two best things about the Budget are the proposals to boost profit-sharing and the Green Paper on the reform of personal taxation.

The Green Paper proposals cannot take effect until the early 1990s for computerisation reasons. The profit-sharing proposals will take time to negotiate with Inland Revenue, and "employers and others" whom the Chancellor has promised to consult, and even longer to implement.

It will be up to those who have campaigned for profit-sharing, whether for Weitzman-type employment-creating reasons, or from a more traditional desire to involve and motivate employees to make sure that the plan does not die for I dread the first meeting between the Inland Revenue and CBI representatives on the subject.

It will also be a formidable test of the sincerity of the Alliance parties' desire to promote a new kind of politics whether they help the Chancellor against foot-dragging from his own side now that he has stolen their clothes on this one issue.

The danger with the Green Paper discussion is that rivalries between the exponents of purely individual taxation allowances will obscure the common ground which links them. That is the abolition of the married allowance, which gives a two-earner family a much larger relief than two separate individuals.

Abolition of this anomaly would release funds for raising thresholds by a sizeable amount.

Still, on both these issues, Nigel Lawson deserves the credit for concentrating on long-term reforms, which may have their most important effects well into the next Parliament rather than ones for which he will reap the credit himself.

The worst aspect of the Budget is the waste of some £1bn to reduce the basic rate of income tax by 1p. This is said to be an "incentive." But an incentive to whom, to do what? And what relevance has it to *involuntary* unemployment?

If only some ways could be found of pricing more people into jobs Britain's economic prospects would seem quite good, as the Red Book demonstrates in detail. This is partly because of the boost that lower oil prices have given to the world economy, and partly because of the rise in UK output per head, following the shake out in recent years.

One reform which is only "better than nothing" is the incentive for small investors to purchase equities, based on an idea of the former French finance minister, E. Monory, but developed further by Somerset House.

But far more important in adapting to the age of high technology and high returns for capital would be measures to band over shares to all adults, not just potential readers of City columns. The place to start is with an experimental free issue in the next privatisation venture, which might be issued while the Prime Minister is on a foreign trip.

One aspect of the Budget on which I cannot imagine myself having spent a moment of time was the reshuffling of excise duty.

It would have been better to have spent the time and energy in concert with Sir Geoffrey Howe, inducing the Prime Minister to accept realities on the European Monetary System, which has brought the French inflation rate below the British. She could not really afford to lose her Foreign Secretary and Chancellor as well as her other ministers.

Now for the monetary and fiscal strategy, which are not the whole of economic policy. The table shows varying measures of fiscal policy.

The most important columns to look at relate not to the famous PSBR, which is distorted by assets sales, but the less well-known public sector financial deficit, which is net of assets, sales and other distortions. While the PSBR is expected to remain stable at around £7bn, the PSFD will rise by £2bn to just over £12bn in 1986-87.

It is better to look at the PSFD as a percentage of GDP. This fell from 5 per cent in 1978-79—Denis Healey's last year—to 2½ per cent in 1981-82 after the tough tax-raising Geoffrey Howe Budget, which both fanatical supporters and fanatical opponents of sound money saw as a profound turning point.

In fact, the percentage then started to rise, partly owing to failures of expenditure control, and also the miners' strike. In the year now ending, the fiscal stance was tightened again with the PSFD down to 2½ per cent of GDP; and a small rise to 3¼ per cent is envisaged for the coming year.

This can be regarded as a very modest fiscal relaxation to offset monetary tightness — British interest rates will still be very high by international standards, even if they soon come down by 1 per cent or more. Alternatively, it can be regarded as a sensible smoothing out of the effects of a halving of the oil price which has cut Government revenue by £6bn.

The Chancellor indicated that if there were a temporary further drop in oil prices below $15, he would be prepared to see a temporarily higher Budget deficit. But on any interpretation, the fiscal relaxation is not on a scale to worry the financial markets.

But neither fiscal nor monetary policy can be seen in isolation. The key feature of the restatement of the Medium Term Financial Strategy in the Red Book is the elevation — quite literally to the top line — of Nominal GDP.

The prose sentence—no doubt the product of many drafts—announces: "While the Nominal GDP figures are not targets, and fluctuation will inevitably occur, the aim will be to avoid substantial departures in either direction in the medium term." This is as near a target as it is sensible to have.

The Chancellor *did explain* that his objectives here were insurance against deficient as well as excess demand. But these assurances are only taken on board if they are spelled out and developed with more elaboration, with the word "jobs" as a leit motif in every other sentence.

The actual projections for Nominal GDP show quite a sharp drop from an 8½ per cent rise in 1985-86 after allowing for the miners' strike to 6¾ per cent in 1986-87. From then on the Nominal GDP path declines more slowly to reach 5½ per cent in 1989-90.

The Treasury now expects the rise in real output to fall back from 3 per cent in the coming year to only 2½ per cent in the remaining years. Indeed, if North Sea oil is excluded, the growth rate is expected to remain at nearly 3 per cent.

Low growth is last decade's economic illness, this decade's is jobless prosperity. Next decade's will be the old Ricardian problem of the division of the national income between the owners of land, labour and capital. It is this problem which stops me cheering when the Chancellor boasts how many taxes on capital and investment income he has abolished without replacement: the latest being gifts tax.

The underlying rate of inflation is measured much better by the GDP deflator than the conventional RPI. The Treasury projection here shows a big fall from 6 per cent in the present financial year to 3¾ per cent next year (largely because of oil and the dollar), but then only the slightest of tilts downwards to 3 per cent by 1989-90. So no one can say that the economy is being crucified out of an over fanatical or literal devotion to zero inflation.

Unfortunately, City-based commentators will focus neither on the wisdom of the ultimate Nominal GDP objectives nor on the realism of the Treasury's estimated split between growth and inflation.

They will focus instead on the monetary means. Here, they will be able to point gleefully to a great gap.

The Treasury authors make it clear that they do not regard their beloved M0 as having a strong causal effect on the economy of a "monetary base" kind. They candidly explain that it is simply an index or proxy for the transaction balances which they have no good way of measuring.

Still, M0 is the only monetary target stated for some years ahead.

The sterling M3 target of 11 to 15 per cent has been raised a great deal and is for 1986-87 only.

The key to the Chancellor's actions is neither of these measures but a "view of the exchange rate" which shifts in relation to forces such as oil prices.

But because the exchange rate objective still "dare not speak its name," the UK Government does not obtain the confidence advantages which for instance the French Government obtained from a specific target related to the EMS.

Now that the oil shake out has largely occurred, there are no longer special factors ruling out British membership.

It is not my first best economic policy, but it is the best obtainable.

Without it, the Bank of England will have to continue to play games with the financial markets and the country will have to suffer higher inflation, higher interest rates, and perhaps less jobs than might be otherwise obtainable. Quite a large price to pay for obstinacy in high places.

UK FISCAL POLICY

Year	Cash (£ billion)	PSBR In 1984-85 prices	Ratio to GDP (per cent)	PSFD* Cash (£ billion)	PSFD* Ratio to GDP (per cent)
Average 1974-75 to 1978-79	8.2	19.4	6¾	7.3	5¾
1979-80	10.0	15.3	4¾	8.2	4
1980-81	12.7	16.3	5½	11.9	5
1981-82	8.6	10.1	3½	5.9	2½
1982-83	8.9	9.7	3¼	8.6	3
1983-84	9.7	10.1	3¼	12.3	4
1984-85	10.1	10.1	3	14.4	4¼
1985-86 (Budget forecast)	6.8	6.4	2	10.2	2½
1986-87 (Budget forecast)	7.1	6.5	1¾	12.2	3¼

*Public sector financial deficit.

TAX REFORM

Some basic questions that still need to be tackled

BY MICHAEL PROWSE

MR LAWSON'S Green Paper has the *grand* title of The Reform of Personal Taxation. The general reader may thus be surprised hy the narrowness of its scope. Most of the paper is concerned with the structure of personal tax allowances although there is some rather inconclusive discussion of the merits of integrating the tax and benefits systems.

The issue that matters most in the longer-term is the structure of the personal tax base. Mr Lswson has tackled the question of how liability to personal taxea should be spread among householda of different types, but has ignored the more important issue of what those taxes should be levied on.

Should personal taxes be based on income or spending? Should mortgage interest relief remain? Should value sdded tax he hroadened? The Treasury has lahoured for a year on a blueprint for the 1990s and the next century but has failed even to ask, let alone to answer, such fundamental questions. Mr Lawson, apparently, still lacks a unifying vision for tax reform.

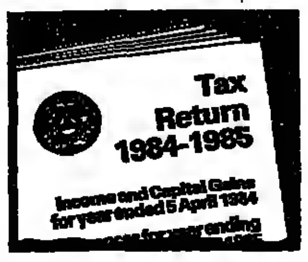
In this sense the psper, wbile containing some interesting analysis, is oo consolation for the series of defeats the Chancellor has suffered at the hands of special interest groups wbich have effectively blocked more radical changes.

The Chancellor believes allowances should be fully transfersble between husband and wife. Yet when the Institute of Fiscal Studies recently held a conference on the subject it had the greatest difficulty finding any tax expert willing to speak in favour of transferability.

Most tax specialists will agree that every adult, regardless of sex or circumstancea, ahould bave the same standard tax allowance. The phasing-out of the marrled man's enhanced allowance is long overdue and necessary if sex discrimination in the present code is to be eliminated. But the case for transferability of allowances between spouses is much less obvious. Indeed, academic opinion throughout Europe seems strongly in favour of fully independent taxation of busband and wife—and this means equal but *non*-transferabla allowances.

The Green Paper attempts to marshal arguments in favour of transferablity. One is thst with this reform a rise in allowances would take more people out of the poverty and unemployment traps than is possible at the same cost today. This may be true, hut it is also the case that the tax system is a blunt weapon to use in attacking these traps.

There is little sense in altering the tax liabilities of every family in the country just to get at the few per cent in tha traps. It is more efficient to tackle poverty through the benefits system, which can focus relief where it is really needed, than throngb changes in geoeral taxation.



Another somewhat apurious argument is that transferability is required for "life cycle" reasons. Thus, it is said, when a wife gives up work to bring up children, the family loses her tax allowance just when it is most needed because of higher outgoings.

Two responses are possible here. First, that with non-transferable allowances all the cash raised by phaaing-out the married man's extra allowance would be available to meet need wberever it occurs. Thus bouseholds supporting children could bave bigber benefits—wbether or not tbe parents happen to be married.

The difference is that a lot of cash would not be wasted on married couples who do not need allowances for life cycle reasons.

Transferability represents indiscriminate largesse. Mr Lawson would be giving extra concessions, for example, to wealthy childless couples where the wife cbooses to stay at bome. This hardly seems consistent with the Fowler doctrine that relief should be carefully targeted on need.

Thia leads to the second response to the life cycle argument which ia that it should anyway be overridden by the principle that benefits and tax concessions should be carefully targetted.

Higher child benefit, for *example, could be justified* purely on life cycle grounda but in fact, as Mr Norman Fowler implicitly recognised, it is better to employ targeted benefits like family credit and Iat the better off cope on their own with life cycle fluctuations—by borrowing if necessary on the market.

As a proposal for the 1990s, the Lawson plan is curiously old-fashioned. Inspite of the lip service paid to "fiscal neutrality" the Chancellor would be introducing an explicit tax break for marriage — an increasingly fragile institution.

Concern bas also been raised about the effect of transferabllity on married women's work incentives. A husband'a net income would fall as hia wife atarted working, reflecting the transfer of the family's second allowance to ber.

There are many factors behind married women's work decisions apart from tax. As the Green Paper notes Denmark, which operates a form of transferable allowances, has the highest proportion of married women working in the EEC. Nonetheless, the IFS calculates that transferablity could reduce employment of married women in the UK by about 200,000.

The case for equal but non-transferable allowances ia that they would be fairer to all types of housebold, administratively much slmpler, and cheapar. The most encouraging line in the Green Paper is the one that say submissions will be studied "very carefully" before the Government decides bow to proceed.

PERSONAL TAXATION

The largest benefits go to the wealthy

THE CHIEF individual beneficiaries of the changes announced in the Budget will be the well-off, although Mr Nigel Lawson's skilful presentation largely disguised that effect.

The wealthy will benefit in particular from the reform of capital transfer tax, the creation or extension of several methods of sheltering income from tax, the shifts in excise duties and the changes in the income tax rates and thresholds.

Mr Lawson's tone was populist, particularly when discussing his income tax changes. "The combined effect of the various income tax changes I have *just announced* is to concentrate the benefit, modest as 1 readily concede it to be, not on the rich but on the great majority of ordinsry taxpayers," he aaid.

In fact, tbe tablea prodoced by the Inland Revenue show that after adjustment for inflation, the main bene6claries of tbe changes aret hose on iocomes of between £15,000 and £20,000, ie those earning ahoot double the average national wage. They will enjoy a reduction in income tax in real terms of 0.9 per cent.

By contrast, married couples earning only £4,000 a year will benefit from a tax reduction of ooly 0.1 per cent. This is the gronp that faces the highest effective rate of tax when the *withdrawal* of *social security* benefits is taken into accout. In some cases, these ratea come to nearly 100 per cent and thus amount to a major dislncentive tc find work. After two years of raising personal allowances with this prohlem in mind, Mr Lawson has now changed tack.

The reason that the Chancellor's reforms are regressive is that *a cut in* the *basic* rate of tax gives most benefit to those who pay tbe maximum basic rate tax. Sucb taxpayers are those wbose taxable Incomes after deducting their allowances and reliefs (for example on mortgage interest), are on the threshold of a hlgher rate of tax. Ooly 4 per cent of all taxpayers have earnings above tbe bigher tax thresbold. *Thus* the cbief beneficiaries of sucb a change are those who are in the top 10 per cent of income earners—but outside the top 4 per cent.

A further twist for basic rate taxpayers is that the cut in the tax rate will appear to increase their mortgage payments. A homeowner with a £30,000 repayment mortgage over 25 years will end up poying an extra £2.63 per month, the Hslifax Building Society estimates. However, this effect ahould be more than offset by the cut in mortgage interest rates which seems likely.

The highest rate taxpayers—the top 1 per cent—have also gained less because the income threshold at which the top 60 per cent rate is introduced bas been raised by less than inflation. However, they will be the chief beneficiaries of the abolition of capital transfer tax on lifetme gifts. After seven yeara in power, the Government has redeemed a pledge made by Mrs Margaret Thatcher when CTT was introduced hy the Lahour Government in 1974-75.

The greatest beneficiaries of all from this change will be the ultra-wealthy. Britain'a wealthiest man, the Duke of Westminster, whose estate is eatimated to be worth at least £2bn will save a minimum of £600m at a stroke as a result of Mr Lawson's statement.

To avoid paying inheritance tax, tbe successor to capital transfer tax, the Duke will have to transfer his wealth, possibly into a trust, at least seven years *before he dies*. But as he is in bis early 30s tbis should not be a major risk and is one against which he and otber wealthy individuala will be able to insure.

Mr Lawson has in fact restored, under a different name and in a watered-down form, estate duty. This dates back to 1895 but was condemned by the 1974-79 Labour government as a voluntary tax and replaced. The Labour government's introduction of a tax on lifetime gifts bas never achieved its objectivea of re-distributing wealth. In fact, after adjustment for inflation, the *annual* yield from CTT has been only a third of tbe yield of the despised estate duty.

This is mainly because of the large number of exemptions and reduced rates introduced by the Labour governmant and extended by the Conservatives. Most important nf all waa the exemption granted to gifts between husband and wife which allowed families to reduce, or at least defer, their tax payments. As the effects of tbat exemptinn began to unwind — as spouses died and bequeathed their wealth to the next generstion — the yield from CTT has started to rise in real terma nver the last threa years.

Mr Lawson has killed the tax just ss it was beginning to bite, albeit weakly. But by preserving the inter-spouse exemption and the lower CTT rates, ha has ensured that his new inheritance tax will be substantially less effective in re-distributing wealth even than the old estate duty. For example, even if a wealthy husband dies prematurely, hia family estate will have a second chance to escape tbe tax if he has left his wealth to his wife.

Another way in which the Budget will benefit the well-off is through its *extension of tax* shelters. The most attractive of all tak ahelters has been the Business Expansion Scheme to attract new equity capital for unquoted companies. Its life span, which was originally limited to 1987, bas now been extended indefinitely.

Although the Chancellor has cut down drastically the possibilities for using the tax shelter merely to buy real estate and other assets with long lives, he has added a further tax incentive. Gains from investments under the BES will be free of capital gains tax, an important consideration for those who regularly use up their annual CGT exemption.

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THE BUDGET: Analysis

POLITICAL ASSESSMENT

Chancellor wins a further year

By Malcolm Rutherford

CHANCELLOR Lawson has been one of the great beneficiaries of the political turbulence of the past few months. While other ministers were busy resigning or trying to make the best of the Westland affair, he was able quietly to get on with his budget preparation. There was rather less prime ministerial or cabinet interference in the Budget presented yesterday than there might otherwise have been.

The Chancellor has gained credit, too, for having successfully fought off a sterling crisis while most people were looking at other matters. There was only one rise in interest rates in early January in spite of the precipitate fall in the price of oil, which will cost the Government a good £5bn in lost revenue in the coming tax year. Even Tories who are not well disposed to him view him with a new respect.

The oil price fall has given him another enormous political gain: he has won time to do more later, and has done so for the most respectable of reasons. It would have been irresponsible to go for large cuts in taxation in 1986-87 because of the decline in the oil price. But given a continuation of the relatively high economic growth and low inflation of which he repeatedly spoke, it will be eminently reasonable to go for much bigger cuts next time—when a general election will be perhaps less than one year away.

At any rate, it will be the next Budget that matters, even if the election is deferred until the spring of 1988. By being what he calls "prudent" now, Mr Lawson has established a case for being generous 12 months on, and without being readily accused of a pre-election handout. He may be able to *claim that it just worked out that way.*

There are some similarities with what happened last year. The Chancellor excused his lack of generosity then on the costs of the miners' strike, which was just ending. Standing up to the strike, he said, was a price worth paying, but the public would understand that it meant a slow down in the *promised tax reductions.*

Similarly yesterday he had an alibi in the fall in the oil price, which no one could convincingly blame on him. Over the last few months one has had the impression of a Treasury re-opening its mind and looking around for reasons why a lower oil price is good for the economy. It has come to the conclusion that it is, except that it will be even better for non-oil producers, such as West Germany and Japan which already have a lower rate of inflation than Britain.

Still, the message is that the oil price fall should eventually cut costs both for industry and the private consumer. That should in turn raise non-oil revenues if economic growth continues, which would make way for the tax cuts.

Last year the Chancellor had a further excuse: what he called the "relentless surge of the dollar" and the American budget deficit which, he said, meant that the US was importing a large part of the rest of the world's savings and exporting some of its own inflation.

Some of that has changed since the Plaza agreement of the Group of Five last September. *Mr Lawson no longer* claims that sterling is too high and may even be able to reap the benefits of a creeping devaluation without much of an off-setting loss in higher inflation. That, one suspects, is something he has always wanted to do, though on the quiet and without upsetting the markets.

Last year's Budget, it should be remembered, was preceded by a sharp fall in the pound as it moved towards parity with the dollar, and then a sharp rise as interest rates went up because the fall had got out of hand.

Logic points to sterling's fairly early entry into the exchange rate mechanism of the European Monetary System, though of course the Chancellor could not publicly discuss it and, so far as is known, the *Prime Minister still* believes that the moment is not yet right.

Yet the relatively smooth passage of the French general elections on Sunday should bring a good deal nearer. There are now no obstacles except Mrs Thatcher's reluctance. Membership would mean that Britain at last belonged to the Community in every way, which could be presented as a considerable political achievement after all the years of quarrelling.

Continental influence, particularly French, looms large. In the last few weeks the Government has agreed to build the Channel tunnel, become so impressed by the French nuclear energy programme that it is determined to accelerate its own, and has now announced a scheme to encourage direct investment in equities that is plainly influenced by the French *Loi Monory.*

Japanese influence comes in through the suggestion that part of employees' wages might depend directly on the profitability of their company per person employed. In a way, this would be a form of incomes policy and the Government is plainly still worried by the level of pay settlements. But it would be a new departure and *shows a readiness to learn* from abroad.

It was a clever Budget: almost a balancing act. Stamp duty was reduced, but is to be balanced by new taxes on other financial transactions: for example, mergers and takeovers. That should not be unpopular with any political party at this stage of financial hyper-activity.

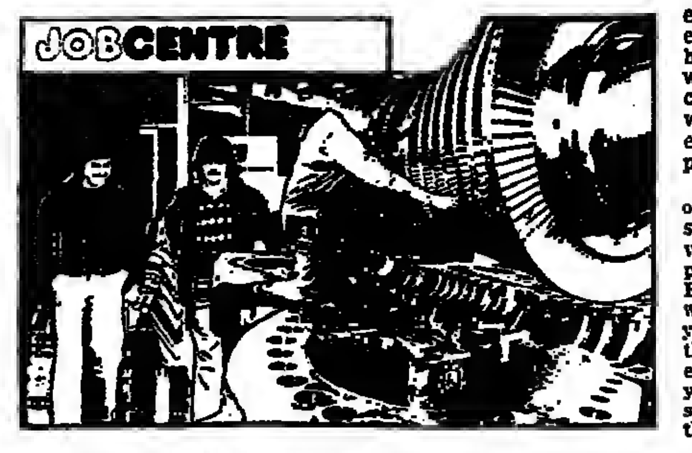
The duty on cigarettes goes up, but can be excused by the health hazard. There are no similar rises in the duty on alcohol. Leaving whisky alone was a sop to the Scots, among whom Tory fortunes are low.

Two severe criticisms could be made. The first is that successive governments, year after year, have sought to introduce measures to promote employment. Mr Lawson's third budget goes further, expanding the community programme and the youths training scheme yet again. Yet the number out of work remains obstinately high. The scheme will be judged by results, but there must be a limit to how long the electorate accepts that this is the best way forward.

The other is that there appears to be little in the Budget for the genuinely disadvantaged, the people who have fallen below the safety net: the old, the sick, the disabled and the long term unemployed. It is almost as if it is a budget if not solely for those in work, at least for those near work, like the young. The bottom quartile of the population looks neglected and that, one suspects, is where the Labour Party and perhaps the Alliance will mount their attack on the Government.

Some subjects have been left for the future: a possible early cut in interest rates, membership of the EMS shortly after and major tax reform delayed almost to the 1990s with the introduction of a computerised system.

All in all, however, it is the intellectual agility that impresses. Mr Lawson has produced a much livelier Budget than might have been expected in the circumstances and the 1p cut in the standard rate of income tax should do the Tories no harm if it is an earnest of things to come. What he has to do now is to deliver next year: that is the hostage to fortune.



JOB CREATION/INDUSTRY

A poultice for the economy's Achilles heel

By John Lloyd and Alan Pike

THE GOVERNMENT's broad philosophic and political approach to job creation and the alleviation of unemployment has been resoundingly confirmed in this Budget. The Chancellor has again asserted that only an enterprise culture can provide secure jobs, and again emphasised the central importance of high real pay increases, that is, relative to those paid in competitor countries, to competitiveness and thus employment. He said: "It is this, and not our alleged dependence on oil, that constitutes the Achilles heel of the British economy."

The prime responsibility for shielding that heel falls on employers, as the Confederation of British Industry, Mr Lawson was quick to point out, had itself admitted. The Chancellor, however, in seeking to give employers some help to get rid of what he called the rigidity of the pay system, and in overcoming the "considerable inertia," hinted at a reform which if successful would be radical step towards the enterprise culture he seeks. If adopted generally it could begin to transform the assumptions and practice of collective bargaining.

Mr Lawson intends to consult forthwith on a scheme to "offer some temporary measure of tax relief to . . . employees . . . to help get profit-sharing agreements of the right kind off the ground." He said the explicit aim would be to replace a system where the only flexibility in wage costs was the numbers employed with one where flexibility was found in pay—clearly the ability for pay to move down in hard times as well as up in good.

The implication here is that he is looking to arrangements where, say, 20 per cent of an employee's earnings may be based on profit-sharing, through either issue of shares in lieu of part of salary or a more direct relationship with profit, as by payment of bonus. This would be new. Now companies offering profit-sharing do so on top of a salary which conforms to the going rate, though the extra may well secure a more skilled employee than would the going rate.

The notion has had a mixed first response. Sir Terence Beckett, CBI director general, was guarded, willing to consult and explore but presently sceptical. Mr Graham Mather, policy director at the Institute of Directors, was cock-a-hoop, talking of "an adventurous and innovative move which will be seen in future years as the most important—it will get pay settlements down and encourage the growth of a share-owning democracy."

Professor Richard Layard, head of the Centre for Employment Research, said he had always favoured such schemes but that they should have a direct relationship to profit so that new workers joining a company could be motivated instantly [rather than having to wait for shares to accrue]. However, he did not believe such a system would help to lower labour costs.

None the less the idea appears to be one the time of which is coming, if it has not yet come. Interest in "job-ownership," stimulated by the work of Professor Martin Weitzman, of Massachusetts Institute of Technology (MIT), and others, has grown with the success of the Employee Share Ownership Plans (Esops) in the US. There tax incentives have been given for some years. Clearly Mr Lawson has such work in mind though we must attend the results of his consultations to see how radical he will wish to be.

The other package of measures is more conventional, reflecting the belief of Lord Young, Employment Secretary, that help is needed to price workers, especially young workers, into jobs. For several hectic weeks Lord Young's officials have tried to evaluate the sketchy first results of the pilot Restart programme for the long-term unemployed, to see if they can persuade the Treasury to extend the nine pilot schemes into a national one. This was no foregone conclusion for adoption of the pilot schemes has been low.

Under the *Jobstart scheme* those among the 1.3m unemployed a year or more and who take jobs at less than £80 a week will receive a weekly subsidy of £20 for six months, to ease transition from long-term unemployment back into the world of work. As part of this programme, under the overall rubric of Restart, the long-term unemployed will be offered counselling interviews and short Restart courses to improve job-finding techniques.

Parallel to this and wholly unheralded a New Workers Scheme is being launched. It will pay a weekly £15 subsidy to employers who engage workers aged 18 or 19 at less than £55 a week, or workers aged 20 at less than £65 a week. It is closely similar to the now-discontinued Young Workers Scheme which proved, at best, moderately successful, showing a good deal of deadweight, that is to say adoption by employers who would have engaged these young workers anyway.

These schemes, like the yet-to-be-announced link between earnings and profits, explicity designed to address both unemployment and high wage increases. The enterprise culture is seen to flourish best when labour-market rigidities, especially wage rigidities, are progressively removed.

A further favourite scheme, one thought to meet criteria for stimulating enterprise and providing employment, is to be expanded further. This is the Enterprise Allowance Scheme which provides £40 a week for a year to the unemployed starting their own businesses. It is to be enlarged from 65,000 entrants a year to 100,000 a year, a substantial growth in the ranks of the entrepreneurially inclined.

Not all of these new entrepreneurs will survive, of course. Those, however, which do, often quickly create jobs beside those of the original entrepreneur. The Manpower Services Commission is investigating ways to make the scheme more efficient by offering better training to those keen to do their own business thing.

Finally the Chancellor offered to expand by 55,000 the current 200,000 places on the Community Programme, and will raise the weekly allowance from £63 to £67 a week. In many of the worst-hit areas of the country the programme provides a lifeline for men and women not used to idleness. For the moment, at least, the lifeline is being paid out a little further.

The cost of these measures is put at £195m in 1986-87 and £285m in 1987-88. It is a good less than the £1bn boost to jobs which the CBI had requested in its pre-Budget submissions. Sir Terence broadly welcomed the package as a skilful one. However, he did not pretend to be wholly satisfied with what the Chancellor has felt able to do to alleviate a problem which more and more confederation members now see as an industrial and social canker.

Nonetheless, industrialists are to take an active hand themselves. Sir Terence will soon present proposals to the Government which would enable industrialists to play a much more active part in the Community Programme than they have to date—about 98 per cent of CP work—providers are local authorities or voluntary agencies. Companies may match government spending pound for pound, or more, to attract CP entrants to do useful work on commercial as well as public property. In the more flexible labour market already in in evidence, and the still-more flexible one apparently yet to come, such a use of labour—impossible at lower levels of unemployment and higher levels of trade union militancy—is now a possibility.

The Budget that almost got away

Budget Day in the House of Commons is an occasion of rare ceremony. Some members turn up before breakfast to secure their seats. One of the oddities of tha House is that it is too small to accommodate its entire membership of 650 seated. Some members see the Budget as the start of the London social season and dress up accordingly.

But just one member of the Commons has the power to wreck the meticulous timetable that goes into the planning and presentation of the Budget. And this year it very nearly happened.

The man who might have *overturned the apple cart* is Geoffrey Dickens, the Conservative member for Littleborough and Saddleworth.

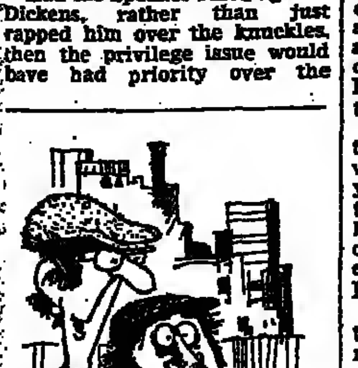
Late on Monday night the Speaker of the Commons, Bernard Weatherill, decided that Dickens had not committed a prima facia breach of privilege in naming an alleged sex offender in the House. Sighs of relief from party managers.

Had the Speaker ruled against Dickens, rather than just rapped him over the knuckles, then the privilege issue would have had priority over the Budget yesterday afternoon.

At 3.30 pm—the usual time for the Chancellor of the Exchequer to start to reveal his secrets—there would have been a debate of possibly one hour 30 mins, followed by a vote, about whether the Dickens' matter should be referred to the *Committee of Privileges.*

Such a delay would have wrecked the Budget presentation, robbed the Chancellor of many headlines, and mangled the careful deadlines of newspapers, radio and television.

Much to the relief of the Treasury the Budget speech was abla to start only five minutes late.



"I think it means we're going to be a non-smoking, profit sharing, lead-free, share buying enterprise culture"

Men and Matters

Roman burgers

It is fair to say that life will never be the same again for the Romans, where the style of eating has hitherto been almost as classical as the architecture. For Rome is the chosen venue for the biggest McDonald's hamburger joint the world has yet seen.

Just a hundred yards from the house at tha Spanish Steps where Keats lived the last years of his life, drinking in the glories of Rome, McDonald's has just opened its 9,007th outlet—the first in the eternal city and only the second in Italy.

Conscious of the grandeur that is Rome the hamburger men used local materials for the building, including displays of Travertine marble. And the usual enormous yellow "M" has been replaced by a muted version.

But the fake Roman mosaics and anti-litter notices in Roman lettering take some swallowing, says my reporter.

Paris remembers

The solemn celebration yesterday evening in Paris of a Requiem Mass for Louis XV, guillotined in 1793, served to remind politicians as well as kings that temporal power often rests on a knife edge.

The mass took place in the colonnaded grandeur of the Madeleine church, built by Napoleon, just a few hundred yards from the Elysee Palace whare journalists were gathering for news of the expected nomination of Jacques Chirac as France's new Prime Minister.

Among those in the Madeleine was the Duka of Anjou, the direct descendent of France's Bourbon kings, who still pulls in the monarchic faithful for annual remembrances of Louis' execution each January.

Organisers disclaimed any intention of trying to rival the political machinations over the formation of France's next government presently gripping the attention of the French media.

Nonatheless, the event underlined that in France, though Left and Right may come and go, the memory of kings lives on.

Containing crime

Crime can be made to pay, a British company called Brooksight has discovered.

Companies in a variety of industries, from brewing to chemicals, are queuing up for the services of Brooksight, based in St Neots, Cambridgeshire, which specialises in tracking down containers that go missing.

Brooksight, started by two ex-police officers in 1979, has built up a healthy turnover in discovering the whereabouts of industrial containers such as kegs, trays, gas bottles and crates. In an average year, the company hopes to recover no fewer than 100,000 of these assorted items for its various clients.

The containers go astray either due to poor management practices or, more frequently, to gangs of criminals which obtain the items either for their scrap value or for melting down into constituent materials such as plastics or metal.

The St Neots concern is not keen to say too much about its operations—nor to disclose its list of customers, which evidently want to keep quiet the scale of their losses. But it is understood the clients include all of Britain's major brewers which suffer particular problems in that aluminium beer kegs are a major attraction for criminals.

Often, Brooksight uncovers caches of containers stored in places such as farm buildings or empty garages while awaiting recycling or sale. The company's staff mount undercover operations to find the caches and track down gangs, handing over information to tha police at the end of the exercise.

Brooksight is part of TIL, a £2.2m turnover pharmaceuticals group with head offices in Isleworth, near London. The link with TIL was forged in tha early 1980s after the TIL management heard about Brooksight's role in finding chemicals containers that had disappeared.

Inns out

Personnel Management, tha business magazine, is doing its best to enliven Industry Year—an event which has not, so far, had us dancing in the streets.

It is offering a small monthly prize for the best nama for a wine bar appropriate to the Year.

The idea came from the Duke of Edinburgh's reference at the Industry Year launch to the number of pubs which owe their names to the days when agriculture was the mainstay of the economy. So why shouldn't the trendy new wine bars echo the industrial style of the age, instead of sounding like foreign holiday resorts?

At the FT we think that something aggressively "high tech" might strike the right note.

I offer El Micro as a starter—you're bound to improve on that.

Observer

FINANCIAL TIMES

Wednesday March 19 1986

NERVOUS TOKYO HINTS AT CENTRAL BANK INTERVENTION

Yen's rapid rise triggers alarm

BY JUREK MARTIN, FAR EAST EDITOR, IN TOKYO

THE JAPANESE Government appears to have become genuinely, and publicly, alarmed that the rapid rise in the value of the yen against the dollar is in the process of wreaking serious damage on the domestic economy.

Yesterday saw an extraordinary flurry of official pronouncements, all pointing in the direction of new measures to boost domestic demand and help ailing companies. The sense of urgency was underscored by a pessimistic monthly report from the Economic Planning Agency, which foresaw another fall in industrial output in the current quarter.

Mr Yasuhiro Nakasone, the Prime Minister, who has previously viewed the yen's appreciation with reasonable equanimity, ordered his Cabinet to prepare an economic package, perhaps within a month.

That might include yet another reduction in the official discount rate, which has come down twice – from 5 per cent to 4 per cent – in the past six weeks, more advanced public works spending, and the speedy passing on to industrial and individual consumers of the benefits of lower oil prices.

Mr Noboru Takeshita, the Finance Minister, in many ways the architect of the yen's recent rise, admitted in Parliament that concerted central bank intervention was now possible. On the Tokyo market yesterday, the dollar fell to an all-time low of Y174.90, a loss of Y0.55.

At the present level, the dollar has fallen by 12.5 per cent from Y200 since the end of last year, and by 27 per cent from Y240 since the meeting of Group of Five ministers on September 22.

Mr Michio Watanabe, the Minister of International Trade and Industry and a political power in the Government, went even further. He told the Cabinet meeting that a target zone was needed for the yen, preferably somewhat below its current value.

Leaders of industry also weighed in with a vengeance. Mr Yoshihiko Inayama, chairman of the Keidanren, the employers' federation, warned that big companies, as well as the marginal small and medium-sized exporters, were about to be badly hurt. Mr Takashi Ishihara, chairman of Nissan, the car company, predicted a fully fledged recession if the Government did not act.

Mr Takeshita held out the hope that measures might be ready by the middle of next month, when Mr Nakasone goes to Washington for pre-summit discussions with President Ronald Reagan. Japan will certainly portray new measures as its contribution to promoting global economic growth.

But it is indisputable that, this time, it has been domestic, not external, pressures that have brought about such a sense of governmental urgency. The most potent has been from Japanese companies, big and small, which form a critical financial prop for the ruling Liberal Democratic Party, which, in turn, is girding itself for an expensive general election, possibly by this summer.

With the exception of industrial production and reduced capital spending, most of the economic numbers do not yet point to distress. Indeed, yesterday the Government coincidentally announced that in the last quarter of 1985 the gross national product had expanded in real terms by no less than an annual rate of 7.2 per cent.

Officials, however, ascribed that to an extraordinary surge in inventories, up 30 per cent over the previous quarter, which is considered unsustainable. In spite of two discount-rate cuts and cheaper oil, the feeling is that the current quarter may show little, if any, real growth – although, over the full year, the combination of the two might add as much as 2 percentage points to the GNP.

Saudis seek pact with Opec on prices

By Richard Johns in Geneva

SAUDI ARABIA sought yesterday to assure other members of the Organisation of Petroleum Exporting Countries (Opec) that it wanted an accord on production levels geared to raising market prices.

A statement released through the official Saudi newsagency also tried to dismiss any impression that the Kingdom was taking a confrontational stance against non-member producers, in particular the UK, by forcing prices down in a bid to persuade them to co-operate with Opec in restraining total output.

The Saudi Government statement denied as "untrue" an account by a British newspaper of an interview with Sheikh Ahmed Zaki Yamani, the Saudi Oil Minister. He was quoted as warning the UK that, because of the slump in oil prices as a result of excess supply, "disaster lies ahead for which your country bears the lion's share of the blame."

Saudi Arabia also said it was "still looking with great hopes for the co-operation of producing countries outside the organisation and a good understanding of the sensitivity of the situation."

The Saudi communication was issued during a confused ministerial conference exploring ways and means of restoring oil prices. The statement was regarded with scepticism by some senior delegates. Many believe the Kingdom is trying to use its muscle as the largest and richest oil producer to stabilise the price of oil at unacceptably low level for most cash-strapped members.

But the Saudi ruling hierarchy does seem to be developing misgivings about a policy backed by fellow conservative Arab regimes of the Gulf and clearly directed at forcing other producers to co-operate in restraining global production.

Seasoned Opec observers saw the statement as a move towards conciliation with other Opec members to encourage them to attempt to push up oil prices without depending on co-operation from the UK and Norway.

The statement also seemed to distance the Saudi Government from the remarks attributed to Sheikh Yamani.

Opec as a whole remains deeply resentful of the Saudi share of total output this year – more than a quarter of the 17m b/d production.

Yesterday Mr Belkacem Nabi, Algerian Minister of Energy, said Opec output should be no more than 14m b/d and a per barrel revenue and income less than $20 was unacceptable.

A committee of Opec experts has been engaged since Tuesday afternoon in intensive efforts to estimate demand more precisely for Opec oil in 1986 and how different levels of production would affect prices.

They are understood to have reached general agreement that the demand over the full year would be about 16.3m b/d depending on changes on commercial inventories.

Chase Manhattan plans bid defences

BY WILLIAM HALL IN NEW YORK

CHASE MANHATTAN, the third biggest US banking group, is seeking shareholder approval to introduce a series of anti takeover provisions at its annual meeting next month.

The move is believed to mark the first occasion on which the parent of a major US money centre bank has announced plans to introduce measures which are widely regarded on Wall Street as discouraging potential "hostile" takeover bids.

Chase Manhattan will ask its shareholders to approve staggered terms for its directors and the adoption of "fair price provisions" which require the approval of 75 per cent of the shareholders for certain transactions.

Mr Fraser Seitel, Chase's director of public affairs, said yesterday that the proposals were not being made in response to any unusual accumulation of stock by an investor group, but were being made "because of general developments in the takeover scene". He said Chase had been looking at the idea for some time and that it was "a prudent thing to do."

Many of America's biggest companies have introduced so-called anti takeover provisions in response to the wave of mergers and hostile takeovers which has swept across the US over the last couple of years. Until recently, however, major banks were believed to be insulated from hostile bids because they are so highly regulated.

Although there has been no apparent relaxation of regulatory attitudes to takeovers in the sector there has been growing speculation on Wall Street in recent weeks that this could be changing.

The speculation has been fuelled by the recent unsuccessful attempt of Mr Sandy Weill, the ex-president of American Express, to take control of BankAmerica, the financially troubled West Coast banking giant. Although Mr Weill was rebuffed, his interest is understood to have led to First Interstate Bancorporation of Los Angeles making an informal takeover approach to BankAmerica.

This approach was also rebuffed, but there is a growing feeling on Wall Street that the days when US banks could remain insulated from hostile takeover approaches are numbered.

Mr Richard Breeden, a partner in the Houston law firm of Baker & Botts and former staff director of the vice-president's task group on regulation of financial services, told a conference of bankers in New York last week that he thought "the insulation is going to end very shortly."

He predicted that there would be "a very substantial increase in the amount of takeover activity involving banks over the next two to three years," and added that the day of hostile takeover bids in the banking industry was going to arrive a "lot sooner than people think."

Wall Street analysts believe that some big US banks could be vulnerable to takeovers because they are not as profitable as rivals. This is reflected in relatively low stock market capitalisations compared with other major US corporations.

Chase, for example, which boasts assets of $87.7bn and earned $565m last year, is valued in the stock market at $3.3bn. This compares with American Express which is capitalised at $15.1bn

Toys "R" US, America's leading speciality toy company, has a stock market valuation equivalent to that of Chase Manhattan.

Exxon plans corporate restructuring

By Dominic Lawson in London

EXXON, the world's largest oil company, is to launch a major corporate restructuring as part of its drive to reduce costs in the wake of the halving of world oil prices.

Under the restructuring Exxon will close all its regional affiliate offices with the exception of Imperial Oil, its 70 per cent owned Canadian affiliate. Last week, the company announced a 26 per cent reduction in its capital spending plans.

Esso Europe, based in London, will be closed by the autumn as will Esso Eastern and Esso Exploration in Houston, Esso Middle East in New York and Esso Inter-America in Florida.

These affiliates will be replaced by a new, as yet unnamed, "international company" based in New Jersey to which all Exxon's worldwide subsidiaries will report.

The closure of the regional offices could lead to several thousand redundancies, adding to the 40,000 jobs that Exxon has shed since 1981.

Exxon added that its corporate headquarters activities in New York would also be reduced. The company warned yesterday that "other corporate activities are being evaluated to determine the most effective organisation in the light of the changed business environment in the oil industry."

As part of the changes, a new company co-ordinating Exxon's coal and minerals activities will be set up in New York, replacing divisions dealing with these activities in the regional affiliates.

Exxon International, the company's oil supply and trading division, will also lose its separate identity and become part of the new international company.

The regional affiliates, acting as a secondary layer between the head office in New York and various worldwide subsidiaries, were created as part of Exxon's grand design in the 1960s.

UK cuts tax rate and forecasts 3% growth

Continued from Page 1

The sterling M3 target, however, which was suspended last autumn, still has only guideline status in his medium-term financial strategy. The 11 to 15 per cent range set for 1986-87 compares with his original intention to set a 4 to 8 per cent target.

The lowering of the PSBR target for 1986-87 also masks an increase in the wider public-sector financial deficit (PSFD), regarded by most economists as the best guide to the Government's underlying fiscal stance. Because of the planned acceleration of the privatisation programme, the PSFD will rise from an estimated £10bn in 1985-86 to just over £12bn in 1986-87.

In his taxation measures, Mr Lawson focused on the Government's aim of promoting popular capitalism.

He announced plans for a new scheme to promote tax-free investment in shares and said he would consult industry on the possibility of providing tax incentives to boost profit-sharing.

The aim of the latter would be to tackle the inflexibility of British wages by moving to a system "in which a significant proportion of an employee's remuneration depends directly on the company's profitability per person employed."

The Personal Equity Plan, to be introduced from next January, will allow an individual to invest up to £2,400 a year in shares with an exemption from tax on reinvested dividends and capital gains if they are held for a short minimum period.

The tax concessions to charities include an exemption from value-added tax on items such as lifts, alarms and welfare transport for handicapped people and tax deductibility for corporate donations to charities up to a maximum of 3 per cent of a company's dividend payments.

Peter Riddell, Political Editor, writes: The budget was welcomed last night by most Conservative MPs as politically astute and ingenious, although the opposition parties and a few senior Conservative ex-ministers agreed that nothing had really been done to help industry or to reduce unemployment.

A widespread view at Westminster was that Mr Lawson had skilfully made the most of a freedom of manoeuvre limited by the lower oil price and has created the platform for a tax-cutting budget next year ahead of a general election in autumn 1987 or early 1988.

Mr Neil Kinnock, the Labour Party leader, described the budget as "an exercise in tax juggling" which was irrelevant to the main problems of the British manufacturing industry and of unemployment. He also criticised the benefits given to those on high salaries and in the City of London.

Dr David Owen, the Social Democrat leader, said the budget was "for the election rather than for the future, more for the South than the North, and helped people in jobs rather than helped people into jobs." He said it was a financial rather than an industrial budget and did nothing to heal Britain's divisions.

Pound rises on oil hopes and budget

Continued from Page 1

Government's borrowing requirement in 1986-87 from the levels earlier projected. Some economists had feared that he might increase borrowing, which they believed would lead to a resurgence of inflation.

While a projection of £7bn ($10.2bn) for next year's PSBR might not have been believed a month ago, Mr Lawson was helped by yesterday's announcement that the PSBR for the first 11 months of the current financial year totalled only £2.8bn. That was much lower than analysts had forecast and lent credibility to the Chancellor's projections for next year.

Some economists, however, remained sceptical about Mr Lawson's arithmetic.

"I cannot see where the money is coming from," said Mr Keith Skeoch, chief economist at London stockbroker James Capel. "It does not square at all with being able to drop your PSBR when you are £7bn short of revenue. It is based on a very optimistic view of the UK economy."

Mr Skeoch believes Mr Lawson has been unduly hopeful about the likely growth in non-oil revenues, on which he is relying to offset the fall in oil tax income

Mr Bootla was also cautious about the Government's chances of remaining within the PSBR target published yesterday, but said that even if the figure of £7bn were accepted, the Chancellor's overall package was expansionary. Asset sales are set to rise by £2.75bn from the current fiscal year's level

German industry loses an innovator

Continued from Page 1

more powerful, Mr Nixdorf was among the first to espouse the idea of decentralised data processing through workstation terminals as opposed to large central mainframes. Putting that notion into practice, he targeted various markets, including banks, for terminals.

While Mr Nixdorf always had something of the ingenious inventor about him, he also had the crucial ability to translate technical innovations into useful and marketable data processing products. He was not averse to turning to the US or Japan for technical know-how or components. The company today sees its role as providing data processing solutions, with a strong emphasis on software and servicing.

Mr Nixdorf was often scathing in criticism of his giant rivals, particularly IBM and Siemens, and revelled in the role of a David harassing the Goliaths of the computer world. Unlike some rivals, he exalted decentralisation – both in the way data processing should serve individuals and in the way his own company's management should operate.

He also caused mild earth tremors (including in his own company) by being sharply critical in public of the Bundespost, West Germany's monolithic postal and telecommunications authority. Typically, he felt the Bundespost was inefficient, overmanned and far too slow in pushing ahead digitalisation of the telephone system.

By contrast, Nixdorf Computer was early in the market with a digital private telephone exchange more than three years ago as part of the company's expansion into the telecommunications business.

In keeping with his maverick nature, Mr Nixdorf himself could not be budged from the small town of Paderborn, set in a rural and Roman Catholic area of northern Germany. He was born there, his home was there and his company is by far the biggest employer, with 8,100 people in production and office work.

Bowing to realities, however, Mr Nixdorf agreed in recent years to build up operations in Munich, which has the reputation of being the nearest thing to West Germany's Silicon Valley.

Mr Nixdorf, who often travelled to the US and elsewhere to pursue his interest in sailing, was a strong believer in sport – even building a vast sports centre on company land at Paderborn for use by workers, particularly apprentices, and by local sports clubs.

While he had a paternalistic attitude to employees, he could be impatient and cutting – fearsome characteristics that he also displayed at times to local and state politicians. He could, by all accounts, become highly indignant at being kept waiting by politicians.

Since the stock market launch of Nixdorf Computer, he has been widely feted as one of a rare breed of dynamic, self-made West German entrepreneurs. In recent times, he assumed the aura of a sort of high priest of technological achievement, although his company's marketing and servicing abilities are at least as significant as its technological prowess.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	18	61	Dubrovnik	F	11	52	Malta	F	15	59	Rhodes	S	16	61
Algiers	C	15	64	Edinburgh	R	7	45	Manchester	C	8	46	Rio de J'o	S	38	100
Amsterdam	F	11	52	Faro	F	16	61	Manila	S	35	95	Rome	S	13	55
Athens	F	12	54	Florence	R	13	55	Melbourne	F	22	72	Salzburg	R	13	55
Bahrain	S	23	73	Frankfurt	R	12	54	Mexico City	S	27	81	San Francisco	F	17	63

Readings at mid-day yesterday. C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

THE LEX COLUMN

A budget for equities

After weeks of self-torture at the prospect of punitive measures in the UK budget, the City of London was able to roar home last night in grand style, the better for a bottle or two of no-more-than indexed sparkling wine. Perhaps more by luck than judgment, Mr Lawson succeeded in producing a budget that would keep the City in good heart for the Big Bang.

In addition to specific incentives for personal investment in equities – at long last, the "Loi Lawson" – there is a £1bn fiscal boost, mostly aimed at the parts of the population where it is most likely to be spent.

To add to the expansive mood it was made as clear as possible that interest rates were to come down, so long as the exchange rate would stand it. If anything more were needed, there was a broad hint that forecast non-oil revenues for next year looked strong enough to finance Sir Geoffrey Howe's seven-year old pledge of income tax at 25p in the pound.

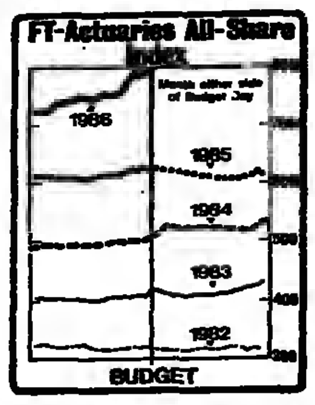
Freedom

The extent to which the budgetary framework has changed would scarcely have been credited even six months ago. The concerted attack on the dollar by the G5, and on the price of oil by the members of Opec, have evidently produced a sense of liberation at the Treasury which most outsiders had not suspected until the last few days.

The PSBR is no longer a problem since corporate tax payments and VAT have pushed up revenue faster than expected, while Government departments have apparently lost their feel for overspending.

Nor is monetary growth the bugbear it used to be. A target range for £M3 that is prepared to let banklending go on just as it pleases – and has been doing for the last year in any case – seems still to be good for a quarter-point off the inflation forecast for 1986, however rum this sounds to a generation of financial economists brought up on one form or another of monetarism.

But if any diehards are concerned about the size of the money stock the gilt-edged market is pretty clearly not, and neither is the Chancellor.



The ceiling of 15 per cent on £M3-growth is the monetary equivalent of permission to go on breathing. What the authorities would do if sterling went into one of its periodic crises is obscure, but at $13.50 for July Brent, there is no longer much petro-currency risk. Mr Lawson's realistic assumption of a $15 average merely underlines his scope for manoeuvre. His joke about adjusting in 25 weeks to the revenue fall anticipated for the next 25 years was no mere piece of self-congratulation.

The immediate beneficiaries in the equity market were all the old lags, sectors such as banks and brewers who had somehow or other escaped being jumped on. But the real impetus that this budget could give to equities has yet to be assessed. The unlocking of pension fund surpluses from the clammy and indecisive embrace of the revenue must be good for reported profits, if not for cash flow into the market from contributions.

Company chairmen will not only gain flexibility in their treatment of these surpluses but in some cases could find their balance sheet liquidity transformed. The troubles of Gomme are gone.

In the next bear market, when the slimmed-down schemes run into deficit as asset values shrink, the Chancellor will presumably have to provide incentives or threats to make good the shortfall.

The reform of stamp duty has been a long-drawn process, and the turn it has now taken suggests that the argument has finally ended on the fence.

To spend years trying to provoke UK company treasurers into issuing domestic corporate bonds, only to slap a tax on secondary market turnover is strange. Maybe the Chancellor has a hitherto concealed enthusiasm for offshore bearer securities.

The absence of a sterling commercial paper market merely reflects the new indifference towards any outcome for bank lending.

As for the imposition of a 5 per cent penal tax on the packaging of British equities as ADRs, a protectionist measure which seems at odds with the philosophy of global securities markets, it must be the first tax that the Treasury has tried to levy in America since the Boston tea party. The ADRs will presumably end up in the East River.

Broadening the base for stamp duty, to include account dealing in equities, will probably leave the spivs unmoved. When the market is going up by 10 per cent per fortnight, half a point is no more than a rake-off from excess profits.

When the market is not going up there is not so much account trading, or any other kind.

If this is the political price of the Personal Equity Plans, the City ... not worry. A new class of unit trust managers, or pep-talk merchants, will have an unprecedented opportunity – albeit less gilded than their French counterparts enjoy – to manage this new-style of SAYE.

Consumption

To do no more than index personal allowances is partly payment for the long-delayed victory of rate cutting over band-widening. It also is no doubt done with one eye on the cumbrous reform of personal taxation, seeing that the transfer of allowances between spouses is bound to increase their cost.

A penny off the basic rate, given indexation, is nevertheless good *news for consumption.*

Given that Mr Lawson has been prevented from tackling the major issues in the old campaign for fiscal neutrality – mortgages are sacrosanct at Number 10 – he has found plenty of popular – indeed populist – things to do.

Just imagine what he might have done for basic rate tax if the oil price had stayed put.

هكذا من الأصل

FINANCIAL TIMES
Wednesday March 19 1986

Kenneth Gooding charts the recovery of the Swedish motor group's car sales

Volvo's step-by-step drive to profitability

"WE MAKE profits in all the markets in which our cars are sold," boasts Mr Roger Holtback, president of the Volvo Car Corporation.

But he admits that the company's success in the US, coupled with the strength of the dollar, has been mainly responsible for Volvo becoming one of the world's best-performing car groups, with an annual 40 per cent return on capital and a 20 per cent profit margin for the past three or four years.

Volvo delivered 102,305 cars to customers in the US last year up from 97,915 in 1984 – or more than one third of its total worldwide sales.

The US contributed more than half Volvo Car's 1985 profit. The details have still to be given but Mr Holtback says Volvo Car's pre-tax income last year was above the SKr 6.14bn ($849m) reported for 1984 – "and 1986 looks good for both volume and profit."

Looking back, Mr Holtback recalls that in 1980 Volvo broke even on its US business by selling 54,500 cars at a time when the dollar bought SKr 4.

Last year the dollar on average bought SKr 9.75 and, although the rate has subsequently slipped to around SKr 7.5, "the dollar value remains very attractive to us." The dollar could drop another SKr 2 and Volvo would still make profits in the US, he adds.

Mr Holtback believes there is still plenty of sales growth left for Volvo Car in the US, but says that the company has no plans for an assembly plant there. Apart from the drain on management and technical resources that would involve, "American consumers have shown that they want a European car, not one assembled in the US."

Volvo Car has come a long way since 1980 when it suffered a traumatic SKr 196m loss and was being written off by many observers who insisted its output was too low for the company to survive.

The company sold a record 392,000 cars in 1985, up by 6,600 compared with the previous year, and in 1986 should increase its sales volume for the sixth successive year.

Roger Holtback, president of Volvo

Mr Holtback points out: "We are going for step-by-step growth in volume and profit. There will be no big jump. We want to strengthen our position in Europe, sell well in the US and establish ourselves in Japan in the future."

Only 1,500 Volvo cars were sold in Japan last year but Mr Holtback suggests the potential is for annual sales of more than 5,000 by 1990.

Although growth in car sales volume might become rather pedestrian, profits should benefit from Volvo's significant move upmarket. It is now selling cars worth a great deal more and with much more value added. "It is much more important for us to add value to our cars than to sell more cars," Mr Holtback maintains.

Volvo now has three car "families" instead of the one on which it relied for most of the 1970s. It has expanded into the sporty part of the market as well as pushing into the prestige sector with the 760/740 range.

The company's total car production increased from 379,500 in 1984 to 397,200 last year, of which 156,200 were 700-series models, 132,000 were 240-series and 109,000 were 300-series smaller cars produced by the associate group, Volvo BV in Holland.

Mr Holtback says productivity gains at the car plants have averaged 8 per cent a year since the mid-1970s, when Volvo began a determined drive to make substantial improvements both in productivity and the quality of its cars.

Volvo Car has adapted Japanese "just in time" component delivery methods to suit the Swedish system and this has squeezed more than SKr 3bn of stocks and work-in-progress out of the production process.

Productivity improvements are slowing up now but Volvo still expects the investment it is making in production systems to reduce the cost per car by Skr 2,100 over the next four or five years. "I am sure we will reach a saving of SKr 3,000," Mr Holtback says confidently.

Volvo Car's capital expenditure has been averaging SKr 2bn a year and will be somewhat higher in 1986. In all, it expects to spend SKr 20bn between 1984 and 1990 and to finance it all internally.

In the past five years Volvo has boosted its engineering and design staff while cutting back elsewhere. For example, the in-house design staff now totals more than 600 compared with 76 at the end of the 1970s, and the company also regularly employs outside consultants.

Volvo Car is in the process of formally setting up a design company in the UK where it has recruited more than 100 designers shaken out by cuts in the British industry. Mr Holtback says it is cheaper to establish a design company in Britain than to take on designers to work in Sweden, where personal tax levels make it unattractive for foreigners to live.

Volvo believes the large-car sector, which in 1976 accounted for about 21 per cent of world car sales but which has fallen below 14 per cent, has now stabilised but cannot be expected to expand again.

Although Volvo could, at a push, produce about 300,000 big cars a year, it is to establish another assembly plant in Sweden at Uddevalla.

Work will start in October this year and be completed in 1988 when the new factory should have the capacity to produce 80,000 cars a year – which gives a clear hint about the corporation's volume growth expectations over the next few years.

Ferruzzi lifts veil as British Sugar bid battle flares

BY ALAN FRIEDMAN IN MILAN

FERRUZZI, the Italian food and agricultural group which this week bought, through Barclays Merchant Bank, a 6 per cent stake in S.&W. Berisford, is moving quickly to lift the veil of secrey which has been its hallmark in the past.

It remains to be seen, however, whether Ravenna-based Ferruzzi, Italy's third largest private sector group with annual sales of L10,000bn ($6.5bn), can act fast enough to establish its credibility in the City of London, where the battle for control of Berisford and its British Sugar subsidiary is being played out.

Ferruzzi's style is conditioned largely by Mr Raul Gardini, 53-year-old chairman of the international business with 100 companies in agriculture, sugar, cereals, shipping, commodity trading and banking. He is a native of Ravenna on the Adriatic coast who will in one moment explain that his group has $900m of cash liquidity and in the next speak of his love of simple pleasures, horses, duck shooting or sailing.

This boyish country charm tends to hide Mr Gardini's real shrewdness and ambition. For a "boy from the country" Mr Gardini has been quite sophisticated lately, including taking control of Beghin-Say, the French sugar and paper products group as well as forging shareholding alliances with Mr Carlo de Benedetti in Credito Romagnolo, the Bologna private bank, and in L'Espresso, the publishing group.

One big drawback for Ferruzzi is its lack of a consolidated balance sheet. Price Waterhouse is preparing one now and Mr Mario Gabbrielli, former finance director of the ENI state energy group, has been hired as a senior Ferruzzi executive.

The group has 6,500 employees and owns more than 2.5m acres of land in Europe, the US and Latin America. Control is held by the Ferruzzi family. Mr Gardini is married to Ida Ferruzzi, one of three daughters of Mr Serafino Ferruzzi, the founder, who died in 1979. There are four quoted subsidiaries, Agricola, Finanziaria, Silos, Eridania and Beghin-Say (on the Paris bourse).

Agricola is the holding company, quoted on the Milan bourse, although it is majority owned by the Ferruzzi family. Agricola controls Eridania, the Italian sugar subsidiary, Silos, the Genoa shipping and grain storage company and Oli E. Risi, the soyabean oil and rice subsidiary. In 1984 Agricola posted a net profit of L30.5bn. Eridania, also listed in Milan, made a L40bn net profit on L757bn of turnover in 1984. Eridania has 3,000 employees.

Silos, the third listed share on the Milan bourse, had a 1984 net profit of L1.5bn on L12bn turnover. Beghin-Say, officially 49.6 per cent controlled by Ferruzzi, although actual share control is believed to top 50 per cent, had 1984 turnover of about $1.5bn. Net profit was nearly $30m and the company has 4,000 employees.

The remainder of Ferruzzi is composed of shipping and railway services (L2,000bn of turnover), commodity trading (L3,000bn of turnover), concrete and cement works (L1,000bn) and agriculture (L200bn). Of these interests, the concrete business will come to the Milan stockmarket in two weeks.

Finance for the Ferruzzi group does not appear to be a problem. A L600bn rights issue for Agricola, half of which was subscribed by the Ferruzzi family, was a success last autumn. Last week Ferruzzi announced plans to raise L702.6bn through share and bond issues for Agricola and Silos.

The Ferruzzi group, which has more than $1bn of net assets, is thus an unusual animal. Based in Ravenna, far from major financial markets, it is nonetheless Europe's largest sugar conglomerate and highly ambitious on several fronts.

BSI earnings and assets rise

BY WILLIAM DULLFORCE IN GENEVA

BANCA della Svizzera Italiana (BSI), the Lugano-based Swiss bank, yesterday reported an 8.9 per cent increase in net earnings to SFr 36.5m ($19.2m) in 1985. Assets rose 3.5 per cent to SFr 6.2bn. Dr Giorgio Ghiringhelli, managing director, said the fall in the dollar's value and the gold price prevented a 10 per cent rise in assets.

The board has proposed an unchanged dividend of 13.5 per cent, again made up of an ordinary dividend of 12 per cent and an "extraordinary" dividend of 1.5 per cent. Following last year's rights issue the total dividend will be about 22 per cent higher at around SFr 25m.

BSI has been having difficulty rewarding shareholders and raising new equity because Ticino, its home canton, taxes premiums derived from capital increases. For this reason last year's rights issue was made at par.

The Ticino authorities recently agreed to remove the tax on capital increases, and Dr Ghiringhelli said BSI would delay further increases until the new measures had come into force.

Instead, the board will seek approval for the issue to shareholders of SFr 50m in bonds with an option to take up participation certificates. An equity-linked dollar bond will also be issued by BSI (Overseas), the bank's subsidiary in the Bahamas.

BSI's cash flow declined 6.2 per cent to SFr 79.4m compared with the result for 1984, when the bank posted SFr 29m in extraordinary profits.

Allocations to losses, depreciation and provisions have been limited to SFr 43m compared with the SFr 54m the previous year, when this item was increased by 61 per cent, partly to cover irregularities discovered that year at a BSI branch and at one of its agencies.

Suchard plans to raise SFr 400m

BY OUR FINANCIAL STAFF

JACOBS SUCHARD, the Swiss chocolate and coffee group that trades under the Tobler and Suchard labels, plans to raise up to SFr 400m ($212.3m) through a rights issue and a public placing of shares.

The company, which earlier this month reported a 25 per cent increase in profits for 1985, says the funding will provide the finance for further expansion and enhance the Swiss character of the group.

The rights issue is to be a one-for-five in participation certificates. The placing will be in new registered shares. Both operations are to be priced towards the end of April.

Mr Klaus Jacobs, president, says it is too early to be specific about expansion plans, although the US is a target area. Suchard recently established a company to deal specifically with US operations.

The rights involves the issue of 76,894 new SFr 50 nominal participation certificates. The placement will be in 117,600 registered shares of SFr 100 par value. The Jacobs family and Colima Holding, a majority shareholder in Suchard owned by the Jacobs family, plan to place bearer shares.

On turnover 5 per cent ahead at SFr 5.3bn, net profits at Suchard rose by a quarter to SFr 150m last year. The company is putting up its dividend by about 3 per cent.

Alfa-Laval stages strong recovery

By David Brown in Stockholm

ALFA-LAVAL, the Swedish engineering and farm equipment group, reported a strong return to profitability last year after 1984's weak performance which led to major restructuring.

Profits before extraordinary items and tax rose 67 per cent to SKr 665.1m ($92.6m) and the group expects "continued" improvement this year. However, it has yet to regain the profit levels of 1983, when it earned SKr 807m before tax.

The board has recommended increasing the dividend by one krona to SKr 10 a share.

Turnover climbed 13 per cent to SKr 10.04bn. But costs rose more slowly by 10.7 per cent due in part to widespread lay-offs and the operating result after depreciation rose from SKr 390.7m to SKr 640.9m.

A decline in financial income was offset by a sharp improvement in extraordinary gains.

All business groups improved operating income. Turnover in the industrial group climbed 17 per cent to SKr 5.94bn helped by acquisitions and several large orders, including one for a dairy in the Soviet Union. Operating income after depreciation rose 25 per cent, the group said.

The Agri unit reported "continued far-reaching rationalisation" last year. Sales declined by 4 per cent to SKr 2.24bn but income advanced by 54 per cent.

Total invoiced sales in the remaining subsidiaries advanced 14 per cent to SKr 1.63bn and income rose 14 per cent.

Return on equity rose from 6.3 per cent to 12.8 per cent. Earnings per share more than doubled to SKr 30. Liquid assets decreased by SKr 195m to SKr 1.95bn. Investments in plant, equipment and shares rose from SKr 598m to SKr 811m.

Carter Hawley hit by sales weakness

BY WILLIAM HALL IN NEW YORK

CARTER HAWLEY, the big US department store group which is still recovering from a takeover battle two years ago, yesterday reported a 42 per cent drop in its fourth-quarter earnings from continuing operations to $18.9m and outlined plans to reduce its overhead costs substantially.

The group reported a 77 per cent rise in earnings from continuing operations to $48m for the 12 months to February 1 on a 9 per cent rise in sales to $4bn. Sales in the final quarter were virtually unchanged at $1.3bn.

Mr Philip Hawley, chairman and chief executive, says that fourth-quarter sales were affected by a weakness in the general merchandise retail industry as well as particular weakness in retail sales in the company's home state of California.

"We made progress in improving our profitability during the last year, notwithstanding a difficult fourth quarter," said Mr Hawley yesterday. "To accelerate this improvement we are implementing programmes to substantially reduce administrative and support service expenses that are not related to customer service. The effect of these programmes will be to lower our selling, general and administrative expense percentage for the coming year."

Mr Hawley fought off an unwelcome $35 a share takeover bid from The Limited department store group in early 1984, promising that Carter Hawley Hale's previous disappointing performance would improve. In order to remain independent, Carter Hawley Hale sold $300m of convertible preferred stock to General Cinema which would give it about 39 per cent of the group's equity on conversion.

Carter Hawley Hale shares fell by $⅝ to $30¾ in early trading yesterday.

Record for Christiania

BY FAY GJESTER IN OSLO

CHRISTIANIA Bank, Norway's second-largest commercial bank, achieved record operating profits last year – NKr 808.2m ($114m), before loss write-offs, tax and extraordinary items, compared with NKr 636.2m a year earlier.

Earnings per share rose to NKr 33.31 from NKr 31.03, and profitability – measured by earnings as a proportion of average total assets, climbed to 1.65 per cent from 1.53 per cent.

The improved performance, achieved despite pressure on interest margins, reflected higher earnings from other activities, particularly trading in shares

Buitoni back in the black

BY JAMES BUXTON IN ROME

BUITONI, the Italian foods and confectionery maker which last year came under the control of Mr Carlo de Benedetti's CIR group, last year made a marginal profit after two years of heavy losses.

Net profits were L448m ($293,000) compared with a loss of L47.7bn in 1984 and a loss of L17bn in 1983. Sales increased 14 per cent on a consolidated basis to L117.6bn, of which more than half were overseas.

The company, which is based in Perugia, allowed L10.6bn for depreciation and invested a total of L17.25bn in its commercial operations.

Buitoni is attempting to buy control of the SME group from IRI, the state-owned holding company. SME, whose aggregate sales are close to L3,000bn, both produces food products and sells them through its chain of supermarkets. The deal is held up by legal and political complications.

● Marzotto, the Italian family-controlled textile group, had sales last year of L451.6bn ($296m), up 17 per cent on those of 1984. Net profits rose from L10bn to L15.6bn.

Paribas sells stake in Providence

By David Housego in Paris

PARIBAS, the state-owned French investment bank, yesterday decided to sell its holding in Providence, the private insurer, to the Axa-Drouot insurance group headed by Mr Claude Bebear.

Paribas' decision, as the largest single shareholder in Providence with 24.8 per cent, considerably strengthens Axa's hand in its takeover battle with the Compagnie du Midi for the control of Providence.

Paribas explained its decision yesterday on the grounds of the attractiveness of the Axa offer and because of the bank's interest in maintaining a foothold in the insurance sector. Until now the Paribas representatives on the Providence board have been alone in declining to recommend the Compagnie du Midi's offer.

Axa is offering seven Drouot shares for each Providence share subscribable through a convertible bond to be issued by Drouot. This puts a value on Providence shares of about FFr 3,700 ($535) compared with a quoted price for Providence shares of FFr 768 when they were suspended from trading in November.

INTL. COMPANIES & FINANCE

Cominco road deal brings zinc mine development closer

BY BERNARD SIMON IN TORONTO

DEVELOPMENT of the world's richest zinc and lead deposit has come a step closer with an agreement between the Vancouver-based mining group Cominco and authorities in Alaska to build a road and port to serve the proposed Red Dog mine in north-west Alaska.

Under the agreement the Alaska Industrial Development Authority (Aida) will finance and build a port oo the Chukchi Sea, 60 miles north of the town of Kotzebue, and a 54 mile road northwards from the coast to the Red Dog deposit. Approval was given earlier for the road to cut through a corner of the Cape Krusenstern National Park.

Construction is expected to begin this summer oo the first part of the project – a permanent barge dock and staging area at the port. Road construction is scheduled to begio in 1987.

The Red Dog deposit is estimated to contain about 77m tonnes of ore, with grades of 17 per cent zinc, 5 per cent lead and 2.6 ounces per tonne of silver.

The deposit is owned by Nana Regional Corporation, one of a dozen companies set up in the 1970s to settle the claims of Alaskan Eskimos.

General Mills confident of growth

BY OUR FINANCIAL STAFF

GENERAL MILLS, the US foods, restaurants and retailing group, lifted operating net earnings for the third quarter from $39.7m, or 90 cents a share, to $46.4m or $1.04. Sales for the period to February 23 grew from $1.07bn to $1.15bn.

The nine-month result showed an improvement from $124.7m or $2.78 to $141.3m or $3.17 on sales ahead from $3.21bn to $3.43bn.

The company said it expected "continued progress" in the fourth quarter, and said that annual growth will be "well above the company's target of 6 per cent real growth plus inflation." In the last full year a net loss of $72.9m, or $1.63 a share was shown, after final quarter charges of $108.6m.

General Mills said fiscal 1986 return on year-end shareholders' equity is expected to exceed 25 per cent – "an all-time high."

The consumer foods segment reported strong sales and operating profit gains, the company said.

Norsk 'optimistic' over magnesium project

BY ROBERT GIBBENS IN MONTREAL

NORSK HYDRO, diversified Norwegian industrial group, is near to taking a decision on building a C$450m (US$323.9m) magnesium metal plant with an annual capacity of 50,000 tonnes at Becancour near Montreal.

Norsk has an option on 450 acres next to a C$1bn Pechiney aluminium smelter opening this spring.

Mr Sverre Bjerkomp, Norsk business development director in Montreal, said the company was "highly optimistic" that a final project study due for completion early next month would lead to a power contract with Hydro-Quebec and a decision by the Norsk board to invest in September. Construction would begin immediately and start-up of the plant was expected in early 1939.

The estimate of the project's cost has risen from C$300m to C$450m, including inflatioo during 1989 and working capital.

Becancour, 80 miles north-east of Montreal, has an ice-free harbour able to take 60,000 tonne vessels. Road-rail transport connects directly with Ontario and US manufacturing centres.

A feasibility study is also being undertaken by Norsk on a magnesium oxide plant and dolomite mining operation, together costing C$150m. Dolomite and high-quality seawater are basic needs for making oxide. Potential mines are being studied in the Havre St Pierre area, a shipping port on the lower St Lawrence about 800 miles north-east of Montreal.

Mr Bjerkomp said the mine and the oxide plant had to fight for funding with other projects among Norsk's energy, fertiliser and petrochemical divisions. The outcome would depend largely on negotiations with federal and provincial governments.

Occidental cuts capital spending

BY OUR FINANCIAL STAFF

OCCIDENTAL Petroleum, the US diversified energy group, has become the third US oil-related company to announce a cut in capital spending in the last week because of falling oil prices.

The Los Angeles-based concern said that total corporate spending has been reduced by about 25 per cent to $1.1bn from $1.5bo originally planned for this year.

Last week Exxon and Chevron, two other big US oil groups, announced plans to cut spending in 1986 by a combined total of $4.3bn.

Occidental said capital spending in international and domestic oil and gas operations has been cut to about $750m from about $1bo in the previous 1986 plan.

The reductions are part of a contingency programme developed late last year to respond to the threat of lower oil prices.

INTL. COMPANIES & FINANCE

Bell wins tactical round in BHP takeover battle

BY JOHN McILWRAITH IN PERTH

MR ROBERT Holmes à Court, the Perth businessman who is seeking a commanding stake in Broken Hill Proprietary (BHP), scored a surprice tactical victory over his quarry at a shareholedsr meeting yesterdoy of Bell Resources, his vehicle for the partial bid.

Ha revealed to the meeting that his Bell Group had llself sold about 1m shares in Bell Resources, lts energy affiliate, to an unsuspecting BHP. As part of its attempts to thwart his proposed bld, BHP had spent A$140m (US$122.7m) in buying more than 23m shares in Bell Resouress equivalent to nearly 19 per cent.

Mr Holmes à Court sald the sale of o stake to BHP had made Australia's lorgest company an effective associate of the Bell empire — thus making it impossible for BHP to carry out its threat to block a planned placement of Bell Resources shares to the parent Bell Group.

With its holding, BHP had been expected to dominate the minority sbareholdings in Bell Resources. The plocing of 120m shares had been described by Mr Holmes à Court as o condition which attached to a loan orranged for the bid through Standord Chartered Bank. Tbe bid itself was mode conditional on the placement.

But ot yesterday's packed meeting, Mr Holmes à Court said the bank hod woived this condition. If, os seems likely, he and bis board remove this placement as a condition of the bid itself, the hitch would be irrelevant in the short term.

However, in order to make sure there would be no obstacle, Mr Holmes à Court arranged an on-market sole of more than 1m sbares to BHP, which was not lmmediately able to detect the vendor.

Under recent rulings of Australlan corporale offoirs authorities, this would make Bell Resources and BHP lechnically ossocioles, probably blocking the exercise of BHP's block of voics.

Mr Holmes à Court, who said he had the power lo reject voles and proxies that might be "defective," Insicad chose to adjourn the meeling for four weeks, by which time lt ls likely that the fote of his bid will have been decided.

It now binges on decisions to be made elsewhere — an expected compromise belween parties in Australia's federal parliament thot would permit the bid to proceed, and the outcome of an action in the Victoria supreme courl.

The meeting had lhe toucb of theatricolity expected of Mr Holmes à Court. Witb opparent cordiality be welcomed BHP os o "new major shoreholder" and added that tbe purchase of sucb a big part of Bell Resources "must represent the high water mark of BHP's recent acquisition programme."

SHELL AUSTRALIA, o unit of Royal Dutch/Shell, pushed net profits to A$66.8m (US$47.4m) in 1985 from A$65.2m on revenue up 20 per cent at A$4.96bn, Reuter reports from Melbonrne. It said 1986 is expected to be difficult, with Sbelt facing stock losses from tbe drop in crude prices.

Exptoration and investment spending rose lo A$624m from A$253m, witb A$234m spent on raising its stake in Woodside Petroleum, operator of the North-West Shelf gas project to 40 per cent. It controls Woodside jointly with BHP.

60-day respite for Wah Kwong

BY ANDREW FISHER IN HONG KONG

WAH KWONG, the troubled Hong Kong shipping company witb debts of US$820m, said yesterday it is to be given 60 days by its creditors to come up with a restructuring plan.

This breathing space is shorter than the 90 days proposed at the end of February. But Amex Asia, the US merchant bank advising the company, said this would be enough time to draw up such a plan.

Until one is prepared, an interest payment plan will be operated. Charter hire funds will be used to pay interest to banks.

Both Cltibank of the US, wbich arrested two sbips in the Wab Kwong fleet, and Lloyds Bank of the UK wbich orrested one, hove said they will support the interest payment plon.

Citibank is to withdraw its arrest of one ship which still bas a profitable charter. The other arrests will go aheod and the ships will be sold.

The payment plan is likely to be signed by the company and its banks on April 1. The group will contribute the $10m credit line made available to it by Standard Chartered Bank and Bank of Tokyo.

The credit line will be supported by cash colloteral of some $5m from the Chao family, wbicb built up the shipping and property concern. Tbe fomily bas already contributed $48m of non-shipping assets to the shipping company in the past six months.

A decision on whetber to take delivery of nine ships—being built for the company in Jopan, Taiwan and South Korea—has still to be made.

Tan's Supreme deal lapses

By Wong Sulong in Kuala Lumpur

THE DEAL under which the Malaysian Associated Chinese Chambers of Commerce and Industry was to buy a strategic stake in Supreme Corporation from Grand United Holdings (GUH), the master company of Mr Tan Koon Swan, has been allowed to lapse following disagreement over tbe final terms.

A chamber official said Mr Tan and the GUH directors felt that the price agreed to was too low.

Tel Aviv SE halts trading

BY LYNNE RICHARDSON IN TEL AVIV

TRADING on the Tel Aviv Stock Exchange was suspended yesterday amid fears of the impending imposltion of a tax on investment profits.

Local newspapers had carried reports that Mr Shimon Peres, the Prime Minister, was in favour of introducing a capital gains tax—a move which had been suggested by other Labour party members of the Knesset (parliament) as an alternative to the recently announced taxes on education and social benefits.

After two hours of trading, an exchange official described as carrying an element of panic, the management board decided to halt all dealings. Buy and sell orders not yet acted on were cancelled.

The atmosphere was calmed somewbat by a statement from the Prime Minister's office which denied that Mr Peres was considering a tax

The Stock Exchange official said that in light of these assurances, trading was expected to resume as normal today.

Bouraq rescue talks at crucial stage

By Kieran Cooke in Jakarta

TWO SENIOR officials from Britain's Export Credits Guaranlee Department (ECGD) bave been doing the rounds of Jakarto boardrooms this month trying to sorl out the problems of Bouroq, one of Indonesia's largest internal oirlines.

Control to the issue are six 748 turbo-prop aircraft purcbased from British Aerospace (BAe) in the eorly 1980s. The deal, worth more than $50m, was supported by the ECGD and managed by Citlbank. But Bouroq is in trouble and over much of the past 18 montbs debt poyments for the oircraft hove bad to be rescheduled. "Bouraq's collapse has only been put off by the indulgence of its creditors," said one aerospace onalyst.

Bouraq begon operations in 1971, servieing routes mostly in lhe eastern half of the vast Indonesion archipelago. Based in the oil refining town of Balikpapan on the island of Kalimontan, Bouraq came to play o central part in the development of Indonesia's airline business alongside Goruda, the state carrier.

With its 19-strong fleet of 748s plus a number of Viscounts and smaller oircraft, it has pioneered several routes, offering cheaper fares to thousands of inter-island migrants ond non-business travellers. Company officials say turnover is well over $30m a year.

Bouraq is a privote company, wholly owned by Mr Jerry Sumendap, one of the country's leading pribumi — or non-Chinese — business entrepreneurs. Mr Sumendap has interests primorily in timber.

Limping along

The first inkling that all was not well with Bouraq came in mid-1984 when delays started on monthly repayments for the six BA 748s. By December, 1985, Bouraq failed to pay the insurance on its aircraft: frantic negotiations followed and a revised repayment schedule was drawn up. Since that time the airline has limped along from creditors' meeting to creditors' meeting.

The situation in the late 1970s was very different. Then, passenger traffic in Indonesia—amid the oil boom—was increasing by as much as 20 per cent each year. Bouraq, Garuda and other airlines undertook major expansion programmes. But the boom faded. By 1983 the growth in passenger traffic had dropped sharply—just at the time when Bouraq was taking delivery of its six new 748s from BAe.

A 27 per cent devaluation of the rupiah, the Indonesian currency, in early 1983 plus removal of fuel subsidies did further damage to the airline's financial health.

In the late 1970s the ECGD, BAe and Citibank all participated in extensive surveys of Bouraq's routes, fare structure and potential growth. All concluded that the company had a good future and the purchase of the new aircraft was justified. Even with the reduction in passenger growth in recent years, most feel that Bouraq is a viable company. Load factors are still adequate and operationally at least, the company is well run.

'A nightmare'

Last year accountants Ernst & Whinney were asked by creditors to do a report on Bouraq. The conclusions of the confidential report were "a bloody nightmare," according to one creditor. The report apparently indicated serious mismanagement, no proper bookkeeping and unexplained losses of revenue. Bouraq's debts are now said to be in excess of $80m.

Successive creditors' meetings in London and Singapore have suggested various remedial measures, including selling off some of the Bouraq fleet. Mr Sumendap has remained confident throughout. "There are no problems—we are considering new routes to Australia, perhaps using jets," he said late last year.

The ECGD, Citibank and BAe do not want to see Bourak fall. Even if the six 748s are forcibly recovered their value will have been sharply reduced, especially if suggestions that some might have been cannabalised for spares are proved correct. Legal action would be time-consuming and would perhaps not be ultimately worthwhile.

Above all, BAe is keenly aware of the sensitivities involved: over the past few years it has made considerable inroads into the Indonsian market. BAe has sold the Indonesian air force one batch of Hawk trainers and hopes to sell another in the near future. In the past 18 months it has sold more than $220m worth of its Rapier missiles to the Indonesian army. In the middle of this year President Suharto is due to take delivery of a VIP version of BAe's new 146 100-seater jet.

Discussions are believed to be reaching a crucial stage: one option now being considered is the sale of Bouraq to a company connected to Mr Suharto's family.

Swiss put imagination into borrowing

BY JOHN WICKS IN ZURICH

THE PAST few years have seen a remarkable degree of diversification on the once conservative Swiss capital market. Gradually, a broad selection of long and medium-term borrowing instruments has found a place on Switzerland's tombstones, so that today's public issue calendars are fraught with footnotes. What National Bank president Mr Pierre Languetin once called a "financial Kama Sutra" is very much in evidence.

This greater borrowing flexibility has allowed fixed-interest bonds to share in the recent bonanza in Swiss share markets through the issue of warrant bonds and notes. Subscriptions have been heavy and secondary-market trading—not least for the warrants themselves—lively, not to say volatile.

In domestic bonds, business really took off last summer. A key role was played by the banks, traditionally the most important category of private-enterprise borrowers. Between last July and September, bank warrant issues totalled a nominal SFr 1.15bn, of which SFr 775m took the form of subordinated bonds, counting as capital for equity-ratio purposes.

Issue volume has slackened this year—in the first quarter it is likely that domestic warrant-bond floats will amount to SFr 400m—primarily because the banks have kept out of the market. The fall in the dollar means a shrinkage of potential balance sheets and removes the necessity for further capital.

Confidence booster

It remains to be seen how the market will develop. Zurich Cantonal Bank's Kurt Mueller expresses some misgivings of the sheer volume of the market, which he says is showing signs of saturation. Mr Mueller also points to the very low coupons and the partially exorbitant prices for warrants.

The Swiss share index is currently 7 per cent below its January high of 625.5. Still, the current season of annual results and shareholders' meetings should boost confidence in Swiss companies in view of generally improved corporate earnings and dividends.

Moreover borrowers and their underwriters are not short of ideas. Without doubt the most imaginative new warrant issue came from Bank Leu, the smallest of Switzerland's Big Five. Last month, the bank raised SFr 100m in 2.75 per cent, 10-year bonds with warrants exchangeable into 100 gramme bars of gold.

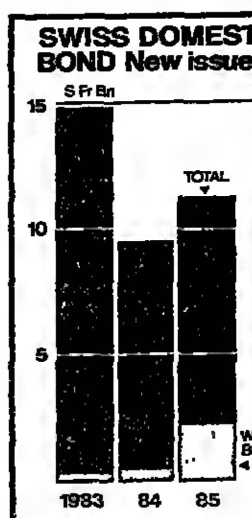
Foreign borrowers' warrant loans have had less impact. They amounted to only some SFr 420m for the whole of last year and will probably raise some SFr 130m more in the first quarter of 1986. Here, convertible loans have been more significant, amounting to SFr 1.06bn in 1985 and likely to reach some SFr 275m in the first quarter of this year.

Foreign presence

The real foreign presence in warrant securities is in medium-term notes. This category is dominated by Japanese borrowers, who last year accounted for 60 per cent of the SFr 19.45bn notes market. A substantial share of all Japanese franc private placements is in the form of warrant notes. The volume of these jumped from just under SFr 1bn in 1984 to some SFr 2.64bn last year.

This growth has continued into 1986. In the first quarter, all warrant notes—a total of SFr 830m — had Japanese addresses. Mr Jules Keller, of the Geneva-based issue manager Soditic, believes that warrant issues will remain very attractive given the possibility of trading in the separated warrants. Every Japanese float continues to meet with success.

At the same time, Japan is fast losing interest in franc convertible notes. Their issue volume dropped from SFr 7.5bn to SFr 5.5bn last year and has virtually disappeared in 1986.



Manufacturers Hanover launches $150m floater

BY CLARE PEARSON

CREDIT SUISSE First Boston yesterday reopened the floating rate note market for US bank borrowers with a 12-year deal for Manufacturers Hanover. The issue is for $150m and pays interest at a rate of ⅛ per cent above the three-month London interbank bid rate (Libid). It is priced at par and is callable at par after three years. Commissions total 55 basis points.

This issue came in the wake of a revival of buying in US bank names, after the heavy selling of recent months. Although the issue was quoted at levels outside its commissions yesterday afternoon, market participants expect interest to pick up and further such issues could appear.

Falls in New York prices, prompted by a rise in the spot price of oil, opened up swap opportunities for would-be borrowers of fixed rate dollar bonds, and several such issues came to light yesterday.

Late on Monday night Unilever NV launched an issue of $90m, to be swapped into Swiss francs. The seven-year bond pays a coupon of 7⅞ per cent and has an issue price of 101 per cent, giving a cost inclusive of fees at issue of 15 basis points over comparable US Treasury bonds.

While this pricing struck bankers as tight, lead-manager Union Bank of Switzerland pointed to Unilever's "quintessential retail name" as justification. The bonds were, however, quoted at levels outside total fees yesterday afternoon.

Morgan Guaranty brought a $75m five-year issue for Trusthouse Forte, also destined for a swap. The issue carries a coupon of 8⅞ per cent and is priced at 100⅞ per cent, giving a spread inclusive of 1⅞ per cent fees over relevant US Treasury yields of about 100 basis points.

Victoria Finance issued a $100m 10½-year bond, guaranteed by the State of Victoria, Australia. The coupon is 8⅞ per cent and the issue price 99⅞. Taking in fees of 2 per cent, the yield margin over 10-year Treasuries at issue was 0.70 per cent.

Lead-manager Morgan Stanley described the pricing as classical for a high-quality borrower, and said the issue was quickly being sold out. It was quoted at levels inside total commissions yesterday afternoon.

In the Euroyen market, Sumitomo Metal Industries followed up Monday's straight fixed-rate Y12bn issue with a "reverse dual-currency note." This is for five years and is issued and redeemed in yen, but pays 7 per cent coupons in dollars. The exchange rate has been set at Y180 to the dollar.

Denmark launched a Y10bn issue with Yamaichi as lead-manager. The deal bears a 5⅞ per cent coupon over five years and an issue price of 101⅞, but it contains a special feature in that the principal amount will be higher than par if the yen weakens below 263.55 to the dollar and smaller if it strengthens above 90.01.

Following strong demand for Citicorp's issue of warrants into C. Itoh's shares, the number of warrants was increased by 25 per cent to 100,000 yesterday.

In the D-Mark sector four tranches of zero-coupon bonds with a redemption value of DM 2.1bn were issued for Baden-Wuerttemberg, the West German state. The bonds will be in the name of the Jersey-based Series D Euro-DM Securities, and are secured against a 40-year promissory note launched simultaneously by Baden-Wuerttemberg. Interest payments for the first 10 years will be placed privately as an annuity with institutional investors.

The first 20-year tranche is for a nominal DM 517.8m and is priced at 27 to give a yield at issue of 6.77 per cent. The second DM 219m 25-year tranche is priced at 22 providing a yield of 6.24. There is a 35-year tranche for a nominal DM 517.8m with an issue price of 12.55, yielding 6.11. Finally, the 40-year tranche, for DM 850m, is priced at 9.79 to give a yield of 6.01 per cent.

There is no 30-year tranche because outstanding similar recent issues give investors access to this maturity already. Investors are expected to be attracted by the volatility provided by the long tranche, which is the longest D-mark bond issue in recent years. West German bankers reported switching out of other holdings of zero-coupon bonds into these yesterday afternoon.

The European Investment Bank launched a Fl 300m issue into the domestic market, led by Amsterdam-Rotterdam Bank. The 10-year bond pays interest at 6⅞ per cent and is the first non-callable issue for a foreign borrower.

The first Kuwaiti dinar issue of the year was launched by Burgan Bank for the Kuwaiti-based company, International Financial Advisers. It is for KD 2m only and pays interest at 8⅞ per cent over five years.

Mitsubishi Trust arranges $1bn CD issuance deal

BY OUR EUROMARKETS CORRESPONDENT

MITSUBISHI Trust and Banking Corporation is to launch a $1bn certificate of deposit issuance programme, believed to be the lorgest of its type to date.

The programme follows similar smaller operetions by a number of Japanese banks recently, including Sumitomo Trust and Banking which last month launched a $750m programme.

Like that programme the Mitsubishi Trust deal has been arranged by Salomon Brothers. Dealers in the certificates will also include Merrill Lynch Capital Markets, Morgan Stanley International and Shearson Lehman Brothers International.

Separately Mitsubishi Trust said it also plans to strengthen its capital base later in the spring through the issue of a $100m convertible eurobond, the first such bond to be issued by a Japanese trust bank.

Mitsubisbi Trust is the largest of the seven Japanese trust banks. At September 30 last year its total assets amounted to $80.55bn.

Operating profit for the year ending March 31 is expected to double over the previous year reaching the equivalent of $400m, the bank sald.

The increase in earnings reflects particularly strong growth in pension fund management and securities trading

Facility for Japan exports

BY CARLA RAPOPORT IN TOKYO

THE MINISTRY of Finance has finally given approval to Japan's Exim Bank to lend money in US dollars to Japanese exporters. The decision, which has been long sought by the business community, is one of a number of recent moves aimed at easing the affects of the rapid rise of the yen on Japan's exporters.

Last year, the Exim Bank lent the equivalent of about $2.4bn to exporters. It is understood that the dollar lending facility will be included in the total amount of funds available for lending and will not constitute new or extra funds. Exim Bank yesterday refused to speculate on the amount of money they would lend. But it is understood that the bank is considering lending around $200 to $300m to exporters.

These funds are expected to be raised on the Eurodollar market, but the bank says it has not yet finalised its borrowing plans. It has already received an informal application for the dollar loans from the Mitsubishi Corporation, which plans to sell a coal-burning power plant to China.

Japanese brokers see record

By Yoko Shibata in Tokyo

JAPAN'S big four securities' houses all expect record pre-tax profits in the first half to March 1986, with combined earnings ahead by 25 per cent to Y353bn ($2.02bn).

The performance is being supported by higher stock and bond prices resulting from lower interest rates worldwide. An expanded volume of bond transactions has been of particular benefit, and bond-related income at Nomura, Daiwa and Nikko is likely to surpass profits at their equity divisions for the first time.

Securities house earnings growth has been occelerated by the latest upsurge of the bond markets triggered by concerted interest rate cuts by West Germany, Japan and the US early this month.

Nomura Securities, the largest, is expected to achieve half-year pre-tax profits of Y130bn, up 23.5 per cent. Daiwa is likely to follow with Y90bn, up 33 per cent; Nikko at Y70bn, up 13 per cent, and Yamaichi at Y60m, ahead by 22 per cent.

In view of bullish stock markets both at home and abroad, and the possibility of further advances by the bond market which would follow another cut in official discount rates, it is considered almost certain that the big four securities houses will also achieve record profits for the full year to September.

Saudi British Bank profits plunge 91%

By Finn Barre in Riyadh

SAUDI BRITISH Bank showed a 91.5 per cent fall in net profits last year, partly because it substantially reinforced bad loan provisions.

The bank, 40 per cent owned by British Bank of the Middle East and 60 per cent by Saudi nationals, transformed its 104.9m riyals ($28.73m) operating profit into a net profit of 9.05m riyals by putting 95.9m riyals into provisions for credit losses. In 1984 it reported profits of 100.44m riyals, after 65.1m riyals had been set aside as provisions. Expenses rose 3 per cent to 215m riyals ($58.9m). Personnel costs were down 1.4 per cent but depreciation on buildings rose 24 per cent with the completion of the bank's offices.

Total assets were 8.18bn riyals, up 12.9 per cent. Loans were down 3 per cent to 3.31bn riyals, of which the construction sector accounted for 23.6 per cent

The average return on assets was 1.36 per cent for 1985 compared with 2.36 per cent in 1984. Average return on equity was 16.8 per cent against 25 per cent.

Sweden prepares US domestic commercial paper programme

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

SWEDEN is preparing to launch a borrowing programme in the US domestic commercial paper morket, Mr Gorao Nirden, acting bead of the internationsl loans department at the National Debt Office said yesterday.

Tbe programme will be along the lines of the sovereign notes issues of poper already undertaken by Denmark and Spain will provide Sweden with a further opportunity to diversify its sources of foreign borrowings.

Mr Nirden said the pper would be launcbed later in the spring but he declined to mention a possible amount. Sweden is currently concentrating on fixed rate borrowings given the low level of world interest rates, be said.

It bas appointed First Boston, Salomon Brothers and Shearson Lehman to act as dealers under the programme, the back-up for which will be provided by the $.8bn standby credit facility olready in plalce under tbe lesdersbip of Cbase Manhattan.

Mr Nirden said the US paper programme would allow Sweden to cboose between the domestic market and the Euromarket wben considering short-term borrowing. It bad been planned for some time but he denied that the decision had been taken because of dissatisfaction with rates obtained under its euronote sales.

Last week Sweden offered $200m of Euronoes in auction but sold only $100m, partly because of dissatisfection with the rates offered and partly because its successful fixed-rate borrowing bad reduced its need for cash.

Mr Nirden said there were no plans to appoint dealers in Eurocommercial paper as an alternative to the tender panel sysem under which banks bid for Euronotes at auction. The amounts of commercial paper sold in the US would also initially be fairly small.

So far this year the Kingdom of Sweden bas made net repayments of SKr 3.4bn from its foreign debt. Gross borrowing has ben higb, however, as two large floating rate notes amounting to $1.25bn bave been called and partly replaced with fixed-rate borrowings.

US QUARTERLIES

ALLIED STORES
Retailing

Fourth quarter	1985 $	1984 $
Revenue	1.4bn	1.3bn
Net profits	88.1m	91.7m
Net per share	3.89	4.37
Year		
Revenue	4.1bn	4bn
Net profits	159.3m	140.7m
Net per share	7.40	6.71

UNITED BRANDS
Food processing

Third quarter	1985-86 $	1984-85 $
Revenue	744.7m	802.9m
Net profits	†1.1m	1.8m
Net per share	†0.11	0.09
Nine months		
Revenue	2.28bn	2.42bn
Net profits	22.6m	11.4m
Net per share	1.37	0.78

† Loss.

JIM WALTER
Building materials, homes

Second quarter	1985-86 $	1984-85 $
Revenue	517m	526.3m
Net profits	18.3m	15m
Net per share	0.62	0.55
Six months		
Revenue	1.1bn	1.1bn
Net profits	50m	42m
Net per share	1.78	1.54

WEST POINT-PEPPERELL
Textiles

Second quarter	1985-86 $	1984-85 $
Revenue	425.0m	283.1m
Net profits	11.3m	720.000
Net per share	0.91	0.07
Six months		
Revenue	766.3m	580.7m
Net profits	24.9m	6.18m
Net per share	2.19	0.79

FT INTERNATIONAL BOND SERVICE

Listed are the 200 latest international bonds for which there is an adequate secondary market.
Closing prices on March 18

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amev 10⅞ 92	100	106	106½	−0⅛	−0⅛	9.05
Amex Credit 10⅞ 90	100	108⅛	108⅝	0	+0⅞	8.35
Allan. Richfield 10⅞ 00	250	105⅞	106⅛	−0⅛	−0⅛	9.46
Australia Com. 11 95	200	115⅞	116	−0⅛	+0⅞	0.46
Australia Com. 11⅞ 00	100	117⅞	117½	−1	−0⅞	9.03
BP Capital 11⅞ 92	150	109⅞	109⅞	−0⅛	−0⅛	9.00
Campbell Soup 10⅞ 95	100	111⅞	111⅞	−0⅛	−0⅛	8.63
Canada 9 96	1000	104⅞	105⅛	−0⅛	−0⅛	8.24
Canada 11½ 90	500	111⅞	112½	−0⅛	−0⅛	7.93
Canadian Pac. 10⅞ 93	100	†106⅞	107½	−0⅛	0	8.38
CEPME 10⅞ 91	100	107	107½	−0⅛	−0⅛	8.42
Citicorp 10 88	200	103⅞	104	−0⅛	+3⅞	8.23
Citicorp 10 96	200	†102⅞	103⅛	+0⅛	+0⅛	9.53
Citicorp 10⅞ 95	200	104⅞	104⅞	−0⅛	+0⅛	9.84
Credit Lyonnais 8 91	200	103	103½	−0⅛	−0⅛	8.19
Credit National 9⅞ 93	150	104⅞	104⅞	−0⅛	+0⅛	8.27
Denmark Kgdm. 11⅞ 89	100	107⅞	108⅛	−0⅛	0	8.18
Denmark Kgdm. 11⅞ 90	100	110⅞	110⅞	−0⅛	−0⅛	8.34
Denmark Kgdm. 11⅞ 92	100	112⅞	113⅛	−0⅛	0	8.64
EDF 10 95	225	107⅞	107⅞	−0⅛	−0⅛	8.79
EEC 8⅞ 91	150	102⅞	103⅛	+0⅛	−0⅛	7.91
EEC 9⅞ 90	350	104⅞	105	−0⅛	−0⅛	8.27
EIB 10⅞ 94	200	108⅞	109	−0⅛	−0⅛	8.76
EIB 12 95	200	120⅞	120⅞	−0⅛	−0⅛	8.66
Eli Lilly 10⅞ 92	150	110⅞	111	−0⅛	−0⅛	8.06
Equit. Lrd. Rlty. 10⅞ 97	100	108⅞	108⅞	−0⅛	−0⅛	9.26
Export Dev Cpn. 10 90	100	107⅞	107⅞	−0⅛	0	7.86
Fed. Dep. Strs. 10⅞ 95	100	108⅞	109⅛	−0⅛	+0⅛	8.50
Ford Motor Crd. 10⅞ 91	150	106⅞	107⅛	−0⅛	−0⅛	8.82
Ford Motor Crd. 11⅞ 90	100	108⅞	109⅛	−0⅛	−0⅛	8.59
Ford Motor Crd. 12 95	100	114⅞	114⅞	−0⅛	−0⅛	9.53
Gen. El. Cred. 10⅞ 00	200	105⅞	105⅞	−0⅛	0	9.50
GMAC 10⅞ 89	200	105⅞	105⅞	−0⅛	−0⅛	8.15
GMAC 10⅞ 92	250	107⅞	108	+0⅛	+0⅛	8.68
IADB 9⅞ 95	200	108⅞	108⅞	−0⅛	−0⅛	8.52
IADB 10⅞ 95	150	112⅞	112⅞	−0⅛	−0⅛	8.49
Kellogg Co. 10⅞ 90	100	106⅞	107	−0⅛	0	8.69
Kellogg Co. 11⅞ 92	100	103⅞	103⅞	−0⅛	−0⅛	9.04
Nippon Cr. Bk. 10⅞ 95	150	111⅞	112⅛	+1⅛	+0⅛	8.72
Pillsbury Co. 10⅞ 93	100	106⅞	107⅛	−0⅛	−0⅛	8.99
Proct. & G. 'A' 9⅞ 32	150	104⅞	105⅛	−0⅛	−0⅛	8.88
Pru Realty S. 12⅞ 95	546	114⅞	115⅛	−0⅛	−0⅛	8.50
Qantas Airways 10⅞ 95	100	111⅞	112	+0⅛	−0⅛	9.49
Quebec Hydro 11⅞ 92	100	†115	115½	0	+0⅛	8.41
Queensld. Gvt. 10⅞ 95	100	110⅞	111	−0⅛	+0⅛	8.53
Ralston Purina 11⅞ 95	100	117⅞	118⅛	−0⅛	+0⅛	8.78
Saab Scania 9⅞ 91	125	104	104½	−0⅛	−0⅛	8.42
Saskatchewan 10⅞ 92	100	111⅞	111⅞	−0⅛	+0⅛	8.23
Scandinavia Air 10⅞ 95	150	102⅞	108⅛	−0⅛	−0⅛	8.75
Srare Bk. S. Au. 9⅞ 95	100	103⅞	103⅞	−0⅛	+0⅛	8.58
Statoil 10 50	170	106⅞	107⅛	−0⅛	0	8.05
S. Wales Trsy. 11⅞ 90	150	110⅞	111⅛	−0⅛	−0⅛	8.50
Swed. Exp. Cred. 10 92	100	100⅞	109⅛	−0⅛	+0⅛	8.08
Sweden 10⅞ 92	250	103⅞	103⅞	−0⅛	−0⅛	8.33
Sweden Kgdm. 10⅞ 50	200	109⅞	109⅞	−0⅛	0	8.08
Sweden Kgdm. 11⅞ 50	100	114	118⅛	−0⅛	−0⅛	9.29
Tenneco Cen. 10⅞ 95	150	105⅞	106⅛	−0⅛	−0⅛	9.70
Utd. Tech. Fin. 10⅞ 95	100	109⅞	110⅛	−0⅛	+0⅛	9.02
Victorian Rep. 11⅞ 92	100	113⅞	114⅛	0	+0⅛	8.59
World Bank 9⅞ 2016	300	109	109½	−0⅛	−1⅛	8.86
World Bank 10⅞ 95	300	112⅞	112⅞	−0⅛	−0⅛	9.16

Average price changes... On day −0⅛ on week −0⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bank 8 94	300	108⅛	108⅞	+0⅛	−0⅛	6.67
Austrian Elec. 6⅞ 95	150	101⅞	101⅞	+0⅛	0	6.28
Copenhagen 7⅞ 95	150	103	103⅞	0	−0⅛	6.86
Dow Chemical 6⅞ 95	300	103⅞	103⅞	+0⅛	+0⅛	6.26
EIB 6⅞ 95	300	105	105½	−0⅛	+0⅛	6.13
EIB 7⅞ 94	300	105⅞	106	−0⅛	−0⅛	6.37
Emhart Cpn. 6⅞ 95	175	101⅞	101⅞	0	0	6.53
Ex. Im. Bk. Korea 7⅞ 50	100	101⅞	102⅞	0	−0⅛	7.10
Finland Republic 7 92	200	104	104⅞	0	−0⅛	6.10
Gould Inr. Fin. 7⅞ 01	100	104⅞	104⅞	0	0	6.55
Horon Intl. Fin. 7⅞ 95	100	98⅞	98⅞	+0½	+0⅛	7.49
Hoesch Intl. Fin. 7 95	100	111⅞	111⅞	0	−0⅛	5.54
Ireland 8⅞ 92	150	107⅞	107⅞	0	0	6.59
I/S Elsam 6⅞ 93	125	†99⅞	100⅞	+0⅛	+0⅛	6.79
Japan Fin. Cen. 7⅞ 91	100	105⅞	106	0	−0⅛	6.32
Mitsbshi. M. 3⅞ 89 WW	100	105⅞	106⅛	−0⅛	−0⅛	1.50
Mitsbshi. M. 3⅞ 89 XW	100	91⅞	92⅛	+0⅛	0	5.56
Quebec Hydro 7⅞ 95	200	106⅞	107	−0⅛	+0⅛	6.16
Renfe 7⅞ 95	100	105⅞	106⅛	0	0	6.86
Soc. C. Nuclear 7⅞ 95	150	111⅞	104⅛	+0⅛	0	5.68
Soc. C. Nuclear 8 91	100	104⅞	105⅛	−0⅛	−0⅛	6.80
S. African Tran. 7⅞ 92	100	99⅞	97⅛	+0⅛	+0⅛	8.22
World Bank 7 95	600	105⅞	100⅛	+0⅛	+0⅛	6.11

Average price changes... On day +0⅛ on week 0

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Avon. Cap. Cpn. 5⅞ 94	130	†101⅞	101⅞	−0⅛	−0⅛	5.13
Br. Land. Camp. 6⅞ 99	75	†104⅞	104⅞	−0⅛	−1	5.99
Chrysler 5⅞ 96	150	†102	103⅛	−0⅛	0	5.34
Council of Europe 6 92	120	†103⅞	104	−0⅛	+0⅛	5.29
Creditanstalt 5⅞ 94	100	†103	102⅛	0	0	5.19
Deutsche Bk. Fin. 5⅞ 95	100	†104⅞	105	+0⅛	0	4.69
EIB 5⅞ 94	120	†104	104⅛	−1⅛	+0⅛	5.25
Gen. Occidentale 4⅞ 94	80	†110⅞	111	−0⅛	+0⅛	3.06
Glendale F. S&L 5⅞ 95	100	†99⅞	99⅞	−0⅛	0	5.95
Ind. F. Finland 5⅞ 94	40	†103	102⅛	0	0	5.43
Int. Am. Dv. Bk. 5⅞ 94	120	†103⅞	103⅞	+0⅛	+0⅛	5.58
N. Zealand Steel 5⅞ 96	70	†100⅞	100⅞	0	−0⅛	5.67
Oberas. Klfwk. 5⅞ 95	100	†102	102⅛	+0⅛	−0⅛	5.07
Olivetti Intl. 5⅞ 95	100	†103	103⅛	+0⅛	0	5.07
Pepsico 5⅞ 95	130	†104	104⅛	+1½	+0⅛	4.88
Phibro-Salomon 5⅞ 97	110	†100⅞	100⅞	0	0	5.05
Ralston Purina 5⅞ 94	125	†102⅞	102⅞	−0⅛	−0⅛	5.02
Tokyo Elec. Pr. 5⅞ 93	120	†103⅞	103⅞	+0⅛	0	4.90
Tokyo Metropolis 5⅞ 94	80	†101⅞	102⅛	−0⅛	0	5.51
World Bank 5⅞ 94	150	†103⅞	104	0	−1	5.10

Average price changes... On day 0 on week 0

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅞ 91	80	101⅞	103⅛	−0⅛	−0⅛	5.61
Swed. Exp. Crd. 6⅞ 99	10	102⅞	103⅛	−0⅛	−0⅛	6.22
Syntex 6⅞ 93	20	98⅞	98⅞	−0⅛	−0⅛	3.60
Walt Disney 6⅞ 99	10	103⅞	104⅛	−0⅛	−0⅛	6.10
Westinghouse 6⅞ 96	15	99⅞	99⅞	−0⅛	+0⅛	6.81

Average price changes... On day −0⅛ on week −0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
A. & NZ Bk. 15⅞ 90 A$	50	†103	105	0	0	13.84
BMW Finance 13 90 A$	50	†100	101	0	0	12.79
Fiat Finance 14⅞ 89 A$	50	†100	101	−0⅛	+1	14.24
LB Schlswg. 14⅞ 91 A$	50	†103⅞	104½	−0⅛	−0⅛	13.03
Aetex 10⅞ 90 C$	50	†104	104⅞	+0⅛	+0⅛	9.47
Canad. Pac. 10⅞ 90 C$	75	†104	104⅞	−0⅛	+0⅛	9.16
CIBC 10⅞ 90 C$	75	*†100⅞	100⅞	−2⅞	−2⅞	10.60
Genstar Fin. 11⅞ 95 C$	75	*†103⅞	104⅞	+0⅛	+0⅛	11.02
Monrreal 11½ 95 C$	75	†105⅞	105⅞	−0⅛	+0⅛	10.50
Ryl. Trustco 10⅞ 90 C$	75	†101⅞	101½	−1	−0⅛	10.00
Spare Acc. 10⅞ 92 C$	75	*†104	104⅞	+0⅛	+0⅛	9.69
Coca-Cola F. 17 90 N$	75	†106⅞	107⅛	+0⅛	+1⅛	14.66
Denmark 17⅞ 89 N$	50	*†97⅞	98⅛	+0⅛	+0⅛	18.58
Unilever Cp. 17⅞ 89 N$	50	†98	99	−0⅛	0	17.97
Copnhagn. C. 9 95 Ecu	40	†105⅞	100⅞	−0⅛	+1⅛	8.08
Eutelsat 8 93 Ecu	50	†103	103½	−0⅛	+0⅛	8.34
Walt Disney 8⅞ 94 Ecu	63	†105⅞	105⅞	0	+2⅞	7.79
Honda WW 3⅞ 90 Fl	100	109⅞	105⅞	−0⅛	−0⅛	2.45
Honda XW 3⅞ 90 Fl	100	90⅞	91⅞	+0⅛	−0⅛	6.46
Thyssen 7⅞ 90 Fl	50	103	103⅛	−0⅛	−0⅛	6.37
Wereldhave 7⅞ 90 Fl	75	103	103⅞	+0⅛	−0⅛	6.80
Wessanen 6⅞ 90 Fl	50	101⅞	101⅞	+0⅛	+0⅛	6.38
Eurofima 11⅞ 92 FFr	300	108⅞	108⅞	0	0	9.33
Amev. 11 93 £	50	102⅞	103⅞	+0⅛	+1⅛	10.36
Australia Com. 11 92 £	40	104⅞	104⅞	+0⅛	+1	9.95
EIB 11⅞ 93 £	50	105⅞	106⅛	+0⅛	+0⅛	9.91
GMAC UK F. 10⅞ 90 £	30	103⅞	103	+0⅛	0	9.68
Imp. Ch. Ind. 11⅞ 95 £	100	107⅞	107⅞	+0⅛	+1⅛	9.98
Imp. Ch. Ind. 10⅞ 92 £	75	102	102½	0	+0⅛	10.22
McDonalds 10⅞ 50 £	40	102⅞	102⅞	−0⅛	0	10.07
Mtsbshi. F. HK 11 90 £	50	101⅞	101⅞	−0⅛	+0⅛	10.32
NSW Treasy. 10⅞ 92 £	50	101⅞	101	+0⅛	+0⅛	10.28
Rank Xerox 11 92 £	40	103⅞	104⅞	+0⅛	+0⅛	10.04
Royal Ins. 10⅞ 92 £	00	101⅞	101	0	+0⅛	10.33
J. Sainsbury 10⅞ 93 £	60	102⅞	103⅛	+0⅛	+1	10.20
Tricentrol XW 11 92 £	35	85	85⅞	+0⅛	+0⅛	14.74
Tathse. Forte 11⅞ 50 £	50	101⅞	101⅞	−0⅛	+0⅛	10.51
World Bank 11⅞ 95 £	100	108⅞	109	0	+0⅛	9.76
COE 8⅞ 95 LFr	600	†100	100½	−0⅛	0	8.82
N. Lux. Al. 10⅞ 92 LFr	600	†101⅞	101⅞	−0⅛	−0⅛	8.72

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Anglia Bldg. S. 5 98 £	0⅛	99.86	99.96	14/4	11⅞
Belgium, Kngdm. of 91	0	100.14	100.24	19/8	8.03
BNP 5⅞ 95	0.05	101.17	101.27	10/7	8.03
Britannia S 93 £	0⅛	99.87	99.97	8/4	11⅞
CCF 5⅞ 97	0	99.38	99.48	5/4	8.06
Citicorp S 2005	0⅛	99.14	99.24	27/3	8.04
Citicorp S 2035	0.225	98.10	98.20	27/3	8.04
Credit Lyonnais S 2000	0⅛	100.18	100.28	10/7	8.03
EEC 3 92 DM	0	100.01	100.11	20/8	4.44
EEC 0 90	0⅛	99.99	100.09	8/7	8.06
EEC 5⅞ 93 Ecu	0.0312	99.84	99.94	30/4	9.51
ENEL S 2000	0⅛	100.17	100.27	1/3	8⅞
Ireland 5⅞ 97	0⅛	100.18	100.28	28/2	8.44
Lloyds Bank Perp.	0⅛	100.17	100.27	9/6	8⅞
Midland Bk. Perp. S	0⅛	100.01	100.11	19/6	8⅞
NatWest Perp. A	00⅛	100.12	100.22	9/7	8.31
NatWest Perp. B	50⅛	100.16	100.25	9/6	8⅞
New Zealand S 97 £	0.07	99.86	99.95	16/3	11.57
New Zealand S 2001	0	99.93	100.03	4/8	8⅞
Prudential Cen. 9 95 £	0.1	99.65	99.75	5/3	11.78
R. Bk. Scotland 9 Perp.	0⅛	100.10	100.20	11/8	8.44
Societe Generale 5⅞ 97	0⅛	100.05	100.15	18/3	8⅞
United Kingdom 5 92	0	100.04	100.14	7/7	8.06
Woodside Fin. 5⅞ 97	0	99.48	99.58	28/7	8.19
Woolwich S 95 £	0⅛	99.53	99.63	18/6	11.69

Average price changes... On day −0.00 on wk. +0.01

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Ajinimoto 3 99	4/84	1053	180½	181⅞	+2⅞	7.03
Comcast 7 2000	12/85	23.87	†120	121	0	11.73
Fanuc 3⅞ 98	1/84	7032	202⅞	203⅞	−3⅞	58.82
Fuji Hvy. Inds. 3 2000	8/85	576	104⅞	106⅛	−0⅛	2.15
Fujitsu 3 99	5/84	1320	104⅞	105½	−2	3.86
Kumagai Gumi 3½ 2000	3/85	600	249⅞	250⅞	+13⅞	13.13
Marui 3½ 99	7/84	1162	215	218	+2⅞	−1.42
Minolta Camera 2⅞ 94	2/86	1105	98⅞	99⅞	−0⅛	23.76
Mitsubishi Bank 2⅞ 00	0/85	1768	120⅞	121½	−1⅛	−3.25
Mitsubishi Elec. 2⅞ 00	3/85	422	110⅞	111⅞	−2⅞	−4.07
Mitsui Bank 2⅞ 01	4/85	101.9	105⅞	105	−2⅞	−80.39
Murata 3⅞ 2000	7/84	2398	127⅞	128	−9⅞	13.71
Niagon Elec. 2⅞ 2000	1/85	1295	127	127⅞	−5	39.09
Nippon Oil Co. 3 2000	6/85	923	149	150	+1⅞	0.00
OKI Elec. Ind. 3⅞ 99	10/84	806	105⅞	106½	−2	1.69
Sanwa Bank 2⅞ 2000	10/85	1486	125	126	−1⅞	−3.90
Sakisui House 3 99	6/84	012	220½	221½	+12⅞	4.20
Sumitomo Bk. 2⅞ 2000	8/85	2124	120⅞	121⅞	+3⅞	−1.92
Sumitomo Cpn. 2⅞ 99	8/84	583	186⅞	186⅞	−0⅛	−2.39
Taiyo Yuden 3⅞ 2000	8/85	1078	†123	124	0	−4.28
Tokyo S'yo El. 3⅞ 99	12/84	772	102⅞	103⅞	−2	3.27
Toshiba Crmcs. 3 2000	4/85	1734	101⅞	104⅞	+0⅛	2.40
Nippon Oil 2⅞ 92 SFr	3/84	1052	†107⅞	103⅞	+1⅞	3.80
Nip. Shinpan 2 92 SFr	3/84	801	*†172⅞	172⅞	+1⅞	11.28
Asics 5 92 DM	12/83	520	110⅞	111⅞	−1⅞	14.35
Renown 3⅞ 90 DM	3/85	675	110⅞	117⅞	−0⅛	−3.87

* No information available—previous day's price.
† Only one market maker supplied a price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK COMPANY NEWS

Exco offshoot agrees to settle £30m share deal

BY CHARLES BATCHELOR

W. I. Carr (Overseas) (Wico), the Far East stockbroking arm of Exco International, has agreed to settle a £30m share deal in Tokyo following the alleged failure of a corporate client to settle the bargain itself.

Wico could be faced with a potential loss of about £2.5m if it had to settle the deal at the current price of the shares involved.

Mr Bill Matthews, Exco chairman, said: "We do not yet have a realised loss until we settle the account, probably tomorrow. It could be a sizeable sum in terms of WICO but it will not be significant for Exco. We have said we are standing behind WICO."

Exco disclosed Wico's difficulties yesterday in a statement intended to halt a growing stream of rumours from the Far East which had led to a fall in its share price in London. Exco's shares slumped 20p to 212p before steadying around 222p in afternoon trading.

Mr Matthews said Wico last week bought about £30m worth of shares in Nankai Electric Railway Company for a Japanese corporate client.

Wico, which is not a member of the Tokyo Stock Exchange, bought the shares in several large parcels at around Y1,800 (702p) per share but the client then allegedly failed to settle.

Wico has agreed to settle the bargain on behalf of its client although the Nankai share price has since fallen to about Y1,650 per share.

"We have no idea what losses we will incur," Mr Matthews said. "I guess our recourse will be to our client. We have instructed lawyers in Tokyo."

He declined to name the corporate client involved but said it had been introduced to Wico by someone well-known to the broker. Wico had not acted for the client for very long however and had no clue as to why it had failed to settle.

Exco, which is principally engaged in money-broking, acquired the Hong Kong-based Wico operation in 1982 and has since expanded it to about 45 staff geared mainly towards investing overseas institutional clients' money in Japanese equities.

Bill Matthews, chairman of Exco

US group takes control at Clive

BY JOHN MOORE, CITY CORRESPONDENT

Prudential-Bache Securities of the US is to take full control of Clive Discount in a deal which values the discount house at £11.95m. The move, announced yesterday, follows the acquisition last year of a one-third stake in Clive and the establishment of a joint primary dealing venture for participation in the reformed British Government securities market.

The acquisition is being made through Bache Group Inc, a Delaware company which owns Prudential Bache Securities. Bache Group, which is owned itself by the giant Prudential Insurance Company of the US, is offering Clive's shareholders 50p in cash for each of their shares.

Mr Nicholas Chamberlen, chairman of Clive, said yesterday that since the initial link was done in May last year the two groups had "grown closer together." He added: "There was no way we felt we could go on as an independent."

Prudential-Bache regards the move as one which consolidates and extends its operations in London's financial markets.

The closer alliance between the two groups has been forged because both sides believe that Clive can only participate fully in the new markets if Clive is wholly-owned by Bache. Once the merger is completed some 40 staff of Clive Discount will join the London operations of Prudential-Bache, which total over 400.

At the time of its initial link with the US group last May, Clive, one of the small group of houses which deal in money market instruments in London, announced a loss of £860,099 for the year ending March 31. It blamed difficult trading conditions. Since then Clive has managed to turn round its trading to a break-even position.

Mr Chris de Boer, of P-B Securities, Down, de Boer & Duckett, the London stockbroking arm of the Prudential-Bache, said that the acquisition of Clive would form the nucleus around which it would develop its sterling money market operations.

Prudential-Bache intends to raise its stake in P-B Securities to 100 per cent in July following the relaxation of the Stock Exchange's rules on outside ownership earlier this month. Prudential-Bache currently holds a 29.9 per cent stake.

P-B Securities Down, de Boer & Duckett has established two subsidiaries which will operate in the new deregulated securities market: P-BC Gilts, as a primary dealer, and P-B Securities Money Brokers, as a stock exchange money broker.

In 1980 there were 11 independent discount houses, but following yesterday's deal there will be four independents left: Gerrard & National, Union, Cater Allen and King and Shaxson.

In the past six years Allen, Harvey and Ross has merged with Cater Ryder to form Cater Allen; Jessel Toynbee has merged with Gillett Bros, and the combined group was acquired by Mercantile House, the financial conglomerate, in 1984. In that year Mercantile acquired Alexanders, another leading discount house.

ICI chief undaunted by profit decline

ICI made strong underlying progress last year despite its fall in pre-tax profits, says chairman Sir John Harvey-Jones in his annual statement. The group is confident of maintaining momentum by operating mature businesses at maximum efficiency and moving into new areas.

Sir John, whose pay rose by only 9 per cent last year to £312,991 against a 68 per cent jump in 1984, said ICI's research spending last year was £349m, up 17 per cent. "We are fundamentally a research-based organisation," he said.

Almost a third of R & D expenditure, £112m, was spent in the pharmaceutical division, giving a ratio to divisional sales of 12 per cent. The heart drug Tenormin joined ICI's other beta blocker Inderal in the world's top 10 selling drugs, Sir John said.

The accounts show ICI's continued drift away from employment in the UK. Group employees worldwide rose by 3,000 to 118,600. UK jobs, however, fell by 1,400 to 57,200.

During the past four years ICI has made 62 acquisitions and 13 disposals, the most noteworthy being the purchase of Beatrice Chemicals in the US last year. The year had also seen the merger of the group's PVC interests with those of the Italian group Enichem, and the disposal of the last polyethylene interests in western Europe.

Return on assets fell last year, from 19.9 per cent in 1984 to 17.6 per cent. There was also a fall in the asset value per share, from 617p to 538p.

Dawson to sue Coats for costs

By Anthony Moreton

Dawson International has taken out a summons against Coats Patons to recover its costs involved in the abortive merger between the two concerns.

Dawson, Kinross-based manufacturer of knitwear under such world-famous names as Pringle, Ballantyne and Braemar, is seeking to recover the £6m involved in its underwriting, legal, advisers' and other costs.

The action names both Coats, the Glasgow-based threads and clothes concern which includes Jaeger, Country Casuals and Jean Muir among its trading names, and also Mr James McAdam, Coats' chief executive, and Mr Michael Bell, a director.

Dawson and Coats announced an agreed bid on January 27. A fortnight later Coats jilted Dawson and joined forces with Vantona Viyella to form Coats Viyella.

Dawson would not comment on the case last night, saying the matter was now sub judice. But it is believed to be the first time the losing side in a takeover has sought to reclaim its costs.

It is not yet clear whether the action is being heard in the Scottish courts, as the two companies concerned both have their headquarters in Scotland, or in England.

Ecobric shares tumble by 25%

ECOBRIC HOLDINGS, a demolition and scrap metal recycling group which rose briefly to national prominence last year when it failed to blow up a block of flats in East London, said yesterday that it knew of no reason for the sudden fall in its share price.

The ordinary shares fell by 25 per cent to 9p and the deferred shares from 14p to 12p. In the six months to July 31 1985 the company made pre-tax losses of £75,000 against profits of £120,000 in the previous year.

EEC checks Ferruzzi's Berisford plans

BY LIONEL BARBER

BARCLAYS Merchant Bank, financial advisers to Ferruzzi, the Italian food and agricultural group, yesterday held talks with advisers to S & W Berisford in an effort to clarify the Italians' intentions towards the UK sugar and commodity trading group.

The meeting follows Barclays' purchase of a 9 per cent stake in Berisford at a cost of around £39m on Monday. The purchase was seen as the prelude to a full bid for Berisford by Ferruzzi.

However, according to a Ferruzzi director, the European Commission is studying whether Ferruzzi's plans to take over the British commodities group violate EEC anti-trust law.

Mr Massimo Vitale said that if Ferruzzi bought Berisford, which owns British Sugar Corporation, it would control between 22 and 23 per cent of EEC beet sugar quotas. Mr Vitale added the Commission had invited Ferruzzi to provide information on the takeover and on the company's activities in Europe, where it already controls 49.76 of the French sugar producer, Beghin-Say.

The potential competition problems also apply to Britain, where the Italian company has yet to provide a detailed plan to the Office of Fair Trading which could raise objections.

Ferruzzi is treading carefully in its pursuit of Berisford, whose prime attraction is British Sugar. Restrictions on the export of foreign capital mean that Ferruzzi needs to obtain permission of the Italian authorities before it can make a bid.

Charterhouse Japhet, advising Berisford, said yesterday that the discussions with Barclays were aimed at ending the uncertainty surrounding the group.

Ferruzzi has been labelled as a potential bidder for several weeks. Meanwhile, Hillsdown Holdings, the acquisitive UK food manufacturer, has built up a 10.6 per cent stake in Berisford and Tate & Lyle, the UK sugar refiner, has bought little more than 4 per cent.

Charterhouse said that a number of options were under consideration, including a management buy-out of Berisford, minus British Sugar.

"It is very fluid at the moment. The main thing we have to do is to clarify the intentions of Ferruzzi," said Charterhouse.

Security delivers the goods for Expamet

Expamet International's acquisitive drive into the security industry was the main thrust behind a 37 per cent increase from £3.2m to £4.38m in taxable profits, reported yesterday by Mr Jeremy Beasley, the chairman.

He said that the increase "fully justifies our strategy of investment in our core businesses and our acquisition in the security related products market." In 1984 Expamet spent £2.5m on five acquisitions, and more than twice that was spent on two purchases last year.

Expamet's infant security business in 1984 contributed nothing but last year accounted for a 28 per cent slice of taxable profits. APT Controls, acquired for £4.8m, "produced excellent profits, well up to expectations," the chairman said, adding that Phoenix Controls, which joined the group three months later in April, "easily exceeded its target." Since the year-end Mayor Turnstiles has been purchased for £0.6m and added to the securities division.

The results from security, together with an improved contribution of £1.66m (£1.56m) from industrial operations, comfortably offset a downturn on the building side where profits slipped from £1.64m to £1.49m.

"In our core businesses, Expanded Metal Company had a successful year and increased profits by 24 per cent" while BAT Building products had a "modestly successful year with profits 5 per cent up on 1984." However, Industrial Building Components continued to struggle and lost £320,000.

IBC, said Mr Beasley, was an area of concern and "appropriate action has been taken to eliminate losses in the current year." Elsewhere, he said that the Expanded Metal Corporation in the US made a small loss, although this was largely accounted for by non-recurring items and the company was now performing more satisfactorily.

Shareholders, who are told by a confident Mr Beasley that they can expect further growth, are set to receive a higher final dividend of 3.55p (3p), making an increased total of 5.9p (5p). Earnings per share rose from 9.49p to 12.58p.

● comment

These results from Expamet are in line with market expectations and the quality of the performance is underlined as it was achieved despite a few minor knocks. The group has also definitely established itself as a three-legged animal with the first serious contribution from the security sector. Of the two core businesses, building products clearly had the least satisfactory time due to losses of £320,000 at IBC and £120,000 at Stainlessfix and rather sluggish demand for BAT's wares. This division could be the one on which management will have to spend most of their time in 1986. In line with the plan to build the security activities up towards a full third of group turnover two acquisitions in this area for a total of around £3m seem imminent. Without allowing much for new acquisitions, the City is looking for £5½m pre-tax this year. This has the shares at 168p on a prospective multiple of 11 given a 35 per cent tax charge. As Expamet's earnings growth looks solid another couple of points on the prospective rating would not be amiss.

SHARE STAKES

Recent changes announced in company share stakes include:

Yorkdyke—J. D. Tinker and A. A. Brook, directors, disposed of 47,928 and 52,072 ordinary shares respectively.

Argyle Trust—J. N. Oppenheim, director, on March 12, purchased 40,000 shares at 46.5p and now holds 3.1m (14.5 per cent). F. C. Calender, director, on March 12, purchased 10,000 shares at 46.5p and now holds 800,000 (3.74 per cent).

Asda-MFI Group—E. G. Bousfield, director, disposed of 17,777 ordinary at 150p. He now holds 476,006 and his wife 175,158 (0.581 per cent).

Whessoe—W. Smart, director, has disposed of 10,000 ordinary.

Tern Group—On March 14 chairman Mr Keen acquired an additional 100,000 ordinary from former director Mr Hariela, increasing his holding to 300,000 ordinary (12.8 per cent).

Muton Bros — T. J. Woods, director, has purchased 6,000 ordinary shares.

British Home Stores—F. H. Lister, director, has sold 92,029 ordinary shares at 320p; J. F. Power, director, sold 171,638 ordinary at 320p.

COMPANY NEWS IN BRIEF

LAING PROPERTIES, property investment company, increased pre-tax profits from £13.2m to £15.5m in 1985. Investment income, net of operating costs, increased by £2.8m to £27.6m. The final dividend is raised from 3.75p to 4p net for a total of 7p (6.25p). Shareholders equity is reduced by £13m net to £207.5m as a result of adverse exchange movements. The directors anticipate that the profit trend of recent years will continue in 1986.

CLONDALKIN GROUP, investment holding company, increased its pre-tax profits from I£3.13m to I£3.54m on turnover up from I£42.06m to I£47.12m in 1985. No final dividend is being paid, but the total is up from 7p to 8.15p. Interest charges rose from £190,000 to £206,000 and there was an exceptional debit of £271,000 (£333,000). Tax took £537,000 against £584,000. There was an extraordinary credit of £374,000 against a debit last time of £122,000. Stated earnings per share rose from 23.45p to 27.48p.

CHAMBERS AND FARGUS, seed crusher and edible oil refiner, has returned to a £51,000 profit (loss £70,000) in the half year ended December 28 1985, with the help of an exceptional credit of £23,000 (debit £113,000). Sales volume increased but value fell to £8.45m (£9.9m) because of sharply lower world market prices. Profit shows satisfactory recovery compared with second half of last year and this trend is continuing. Anticipated that a dividend will be paid (nil).

DEE CORPORATION, the supermarkets group, said yesterday that press speculation it was planning to buy Woolworth's Holdings, the stores group, was "totally without substance." Last week Dixons, the electrical retailing chain, denied rumours that it was planning to mount a bid for Woolworth.

SIMS CATERING Butchers has bought W. D. Brabin from Edward Billington and Son for a nominal £1. The USM-quoted company will also be paying £290,000 for Brabin's premises and making a capital injection of about £260,000. In the year to the end of April 1985 Brabin, which is based in Liverpool, reported a loss before tax of £155,850 on turnover of £4.4m.

LADBROKE INDEX
1,369-1,373 (+11)
Based on FT Index
Tel: 01-427 4411

Pennine Resources in profit

AFTER INCURRING losses of £424,000 in the year-end Pennine Resources recovered in the six months to September 30 1985 and achieved pre-tax profits of £90,000 on ordinary activities. In the corresponding period last year, the losses were a re-stated £25,000.

Mr Malcolm Horsman, the chairman, says the company's oil producing assets are affected by the decline in oil prices, and although the real estate assets are producing income, the Chanute assets continue to operate at a loss.

Mr Horsman says the realisation of the Dutchmaid assets in Pennsylvania continues, and is further facilitated by the agreement to settle the company's dispute with the former shareholders of Dutchmaid by a single cash payment of $1.2m next month in settlement of the outstanding balance of the purchase price of some $3.25m.

Refurbishment of some of the Talbot stores in New York is taking place, and the marketing emphasis is being changed. After some initial trading difficulties, the company's position is improving, and Mr Horsman says he believes that this acquisition will provide a springboard from which to expand in this field.

YEARLING BONDS: The interest rate for this week's issue is 10⅛ per cent, down ⅛ of a percentage point from last week, and compares with 12½ per cent a year ago. The bonds are issued at par and are redeemable on March 25 1987. A full list of issues will be published in tomorrow's edition.

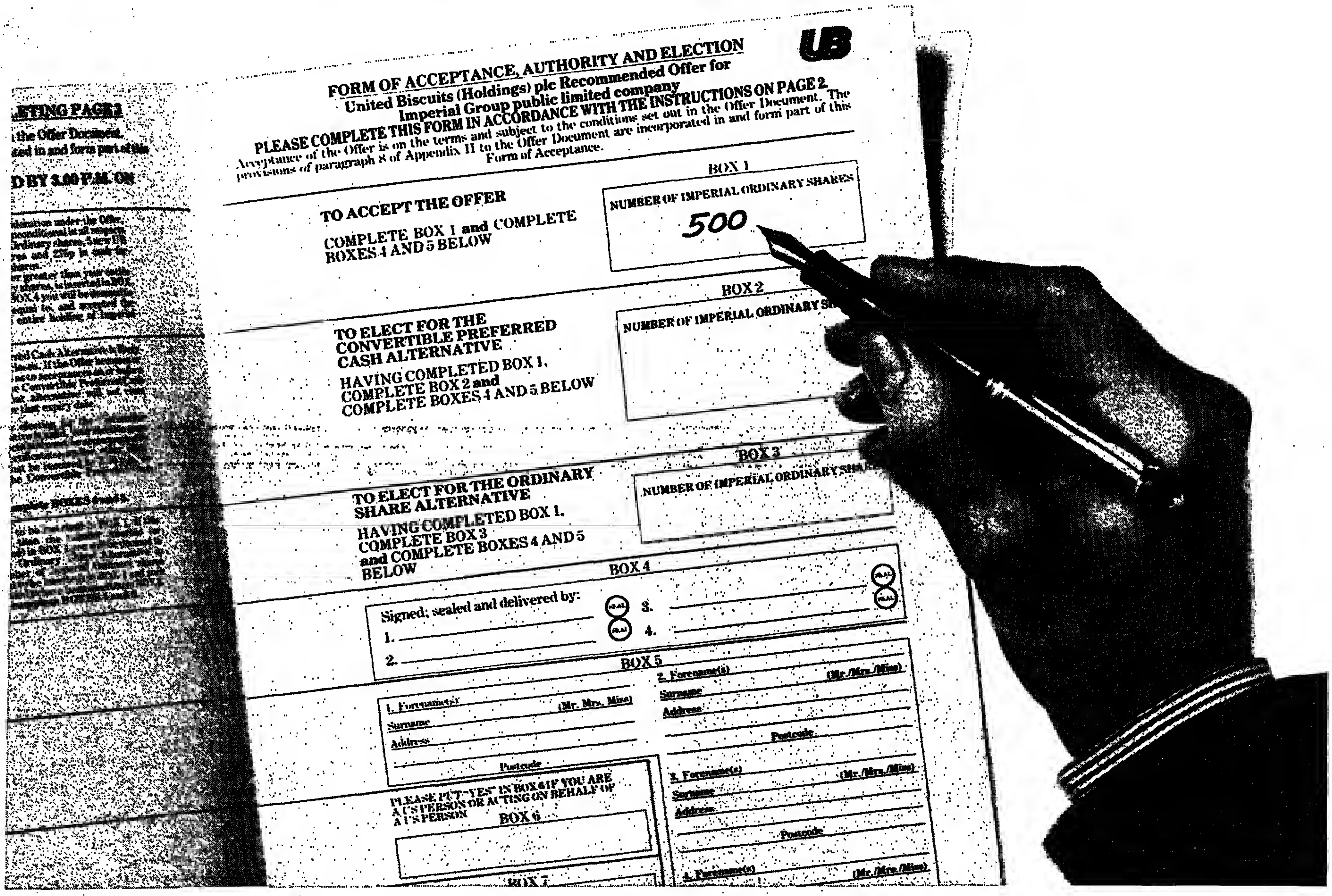
DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div.	Total for year	Total last year
BM Group ......int.	0.66	May 6	0.66	—	1.65¶
Expamet	3.55	—	3	5.9	5
S.R. Gent ......int.	0.5	May 12	1	—	2
Laing Props.	4	May 2	3.75	7	6.25
Merchants' Wh'sing int.	‖0.9	April 4	0.9	—	1.8
Paterson Zochonis ...int.	1.85	May 2	1.35	—	5.9
Watmoughs	4.8†	April 25	4.55	6.5†	6.25

Dividends shown in pence per share except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ For 15 months. ‖ Irish pence throughout.

We, the Imperial Board, strongly recommend immediate acceptance of the United Biscuits offer.

(This is the form it should take.)



If you are an Imperial shareholder, the unanimous advice of your Board, fully supported by its financial advisers, Hambros Bank, is that you should accept the offer made by United Biscuits.

In order to do this you should complete the white United Biscuits acceptance form immediately. All forms should be returned by 3.00 pm on Friday, 21st March 1986.

This is the way to "stay with Imperial."

By accepting the UB offer, you will help create a major new British group, United Imperial, which will ensure Imperial's businesses continue to prosper.

It is most important that every UB form of acceptance is despatched without delay. That is the best way of repelling the unwelcome Hanson bid.

If you need advice on how to complete the UB acceptance form, please telephone 0272-666961.

Famous brands doing famously.
IMPERIAL GROUP

This advertisement is published by Hambros Bank Limited on behalf of the Imperial Group plc. The directors of the Imperial Group plc (including those that have delegated detailed supervision of this advertisement) have taken all reasonable care to ensure that the facts stated and opinions expressed herein are fair and accurate. The directors accept responsibility accordingly.

UK COMPANY NEWS

Zochonis up 19% despite sliding Nigerian rates

Paterson Zochonis, the Manchester-based company which manufactures soap and toiletries and trades in West Africa, yesterday reported a 19 per cent increase in pre-tax profits for the first half of the 1985/86 year. At £20.87m, up from £17.52m, the figure was at the upper end of analysts' expectations.

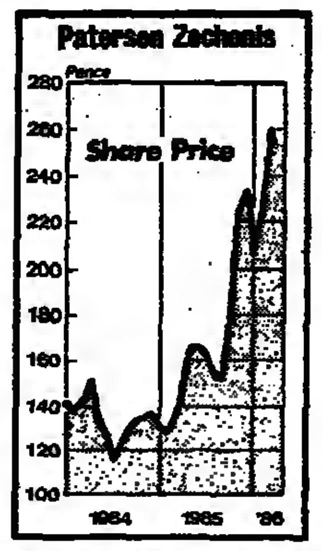
The result would have been £0.8m better but for the effect of the declining value of the Nigerian naira. This fell by 13 per cent in the six months to November 30 1985, and a further 8 per cent by the end of February. The company said that it was deemed prudent to use the rate at the end of last month.

The directors said that the "satisfactory improvement" was mainly due to an increase in investment income—up from £2.65m to £4.41m—and a reduction in interest payable, which fell from £5.49m to £3.24m.

They add that the group's companies are currently maintaining their performance and subject to unforeseen exchange rate adjustments, second half profits should not be less than those for the first.

The interim dividend is raised from 1.55p to 1.65p per ordinary and "A" ordinary share, on earnings of 22.58p (19.21p). Last year there was a total of 5.9p on taxable profits of £38.6m and earnings of 38.6p.

Turnover slipped from £150.02m to £120.45m, but operating profits rose from £12.04m to £12.53m. The results of the Nigerian companies were lower in sterling terms but ahead in local currency, and production of the various units was maintained at levels similar to the last half-year, with demand remaining strong.



Overall, Cussons group results continued to improve, helped by favourable raw material prices, and Interparco companies have made satisfactory progress.

In the longer term, say the directors, results are dependent on external influences affecting both exchange rate movements and the Nigerian companies' ability to sustain adequate raw material supplies for their operations.

The tax charge for the half year rose from £7.33m to £9.47m, with a sharp rise in UK tax—up from £1.27m to £4.17m. Overseas tax came to £2.07m (£2.31m), and the balance of the total tax bill was on the profits of related companies.

Attributable profits came out at £11.1m (£9.5m), of which preference and ordinary dividend will take £1.17m (£1.12m).

The directors say that using the same Nigerian exchange rate there would have been a loss in reserves of about £12.5m (£0.5m) on translation of net currency assets into sterling. The amount of the movement for the full year will be determined by the rate at the end of next May.

● comment

Paterson Zochonis is so often written off as being heavily dependent on Nigeria that the shares' stockmarket rating is always low. In the half-year to November Nigerian profits were hit. The downturn was due to the fall in the naira, and the cautious view PZ took by using February exchange rates. PZ is waiting to hear about this year's import licences, with the probability that they will be granted for raw materials for essential products such as soaps and detergents. Progress elsewhere in the group, particularly the UK, made up for the Nigerian fall, and the strength of the balance sheet, translated into higher investment income and lower interest charges, pushed profits ahead. The company's investments, mostly in short-dated gilt-edged stocks, now account for about three-quarters of its market capitalisation. Profits for the full year could reach £44m pre-tax, giving a p/e ratio of only 5.2 with the shares at 250p, down 10p yesterday on profit-taking. Safe from take-overs, the shares are unlikely to be re-rated, but should reward patient investors.

Norank achieves record £0.4m

Norank Systems has announced a record £404,000 in pre-tax profits for 1985, against a previous £191,000. In December 1985 at the time it joined the USM a forecast of not less than £375,000 was made.

The directors of Norank, which designs and makes metal display systems for record retailers, say that current trading remains buoyant and they anticipate further growth in 1986. They believe that there is considerable potential in overseas markets and expect exports to increase substantially during the year.

Turnover in 1985 improved by 73 per cent from £699,000 to £1.21m, and the company is looking for additional premises to maintain its expansion programme.

Mr Norman Harrison, Norank's managing director, said yesterday that the large percentage increase in pre-tax profits had been achieved by increasing turnover while keeping tight control on overheads.

He looked forward to continued growth in the company's markets, not just through widening the customers base but also through the increasingly important replacement market. The Virgin Megastore in London's Oxford Street, for example, had changed its display three times in the last six years, he said.

Operating profits for the year rose to £373,000 (£169,000), and the pre-tax result last time was before an exceptional £116,000 debit.

After tax of £160,000 (£34,000) attributable profits emerged £203,000 higher at £244,000 for earnings per 5p share up from 1.3p to 7.8p.

As forecast there is no dividend. The directors intend paying dividends in November 1986 and May 1987 totalling 3p.

SGB on course to meet £18m forecast

By Charles Batchelor

SGB Group, Britain's largest scaffolding company which is fighting off a takeover bid from BET, is confident it will achieve the £18m pre-tax profit forecast for the year ending September, Mr Clive Beck, the chairman, said yesterday.

"We have come through the winter very satisfactorily. I am optimistic we will at least do everything we said we would," he said after a shareholders' meeting yesterday.

"Our traditional scaffolding interests are now complemented by the faster growing areas (equipment hire, access equipment manufacture and building restoration) which contributed two-thirds of our profits and reduced our dependence on the construction cycle and our exposure to vulnerable overseas markets," he told shareholders.

SGB has been presenting its arguments to the Monopolies and Mergers Commission against the £120m takeover bid from BET which has now formally lapsed. BET has indicated, however, it will revive its campaign if its bid is cleared.

SGB claims the two companies together account for about 36 per cent of market for large scaffolding contracts, worth more than about £100,000 each, and for 60 per cent of the specialised offshore market.

The two companies also have a large proportion of the market supplying small builders with scaffolding equipment, Mr Beck said.

SGB estimates that the BET bid, which was preceded by an unsuccessful tender offer from C. H. Beazer, the housebuilding group, has led to institutions taking a larger number of its shares, reducing the proportion held by small investors by half to 20 per cent.

BET has a 14 per cent holding in SGB while the Kuwait Investment Office holds 10.25 per cent.

Shareholders unanimously approved all motions at the meeting and raised no questions.

Further erosion in margins at Gent

S. R. Gent, the clothing manufacturer with Marks and Spencer as its largest customer, had a poor first half, as expected. Waivers have been received in respect of 21.75m shares so the company is paying an interim dividend, but it is halved to 0.5p net.

In the six months ended December 31 1985 the pre-tax profit fell from £901,000 to £22,000. This follows the trend of the second half of 1984-85 when the company made only £126,000, and halved its final dividend to 1p.

Trading continued to be difficult in the areas where the company is particularly heavily concentrated, such as ladies' dresses. Areas such as children's wear and ladies' blouses showed satisfactory improvements, but were not sufficient to compensate for the deterioration in margins.

The requirement of Marks and Spencer for more basic lines confined the opportunities to achieve better margin results.

Turnover rose from £41m to £43.88m. The company is satisfied to have maintained its sales volume and says it is ready for the opportunity to move forward as trading improves, "which at this moment has not yet become apparent."

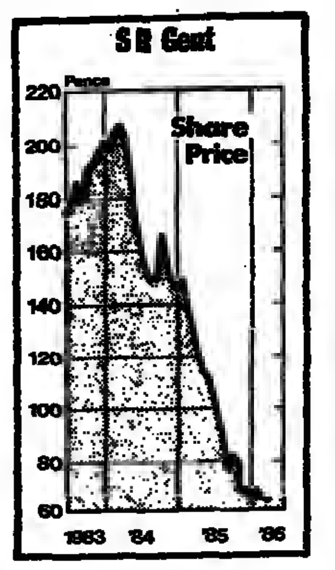
Cost of overheads rose £3m to £43.16m to leave the operating profit at £715,000 (£1.07m).

Gent has decided not to pursue trade in the US for the time being, as the initial encouraging results did not mature as the value of the dollar decreased.

The subsidiary in Canada is trading more satisfactorily, and the Australian company will be strengthened on the management side. In South Africa, the related company continues to hold its position.

● comment

SR Gent's fortunes have limped from bad to worse in the last year or so. The market was merciful yesterday and left the shares unchanged at 64p. Marks and Spencer, Gent's chief customer, is a harsh task master at the least competitive of times. As high street competition from Next and Principles has intensified, it has stepped up the pressure on suppliers' margins and stocks. And nowhere has high street competition been more intense than in the dresses which Gent supplies. Marks and Spencer's newfound enthusiasm for diversity has compounded the problem for Gent, whose cost structure has been moulded on years of long, long runs. Meanwhile the US operation, which was bandied about as the panacea to Gent's problems at the end of the last financial year, has fallen victim to the dollar. Earnings from Canada and Australia do little to compensate for the collapse of South Africa, Gent's main export market. As a result Gent will be lucky to break even for the year as a whole. Its solution has been to cut costs, with a rationalisation programme at the Barnsley manufacturing base, and to diversify away from dresses into blouses, nightwear and lingerie.



Obituary

Grateful for everything he has meant to us we announce the unexpected passing away of our dear husband and father

YUZO KATO
at the age of 48 years.
We shall always remember you.
YUKIKO KATO
KANAKO

March 15th, 1986
In Het Midden 91
1422 PC Uithoorn
There will be an opportunity to pay last respects on the evening of Wednesday, March 19th, between 19.00-20.00 at Uitvaartcentrum Bouwens, Startbaan 7 (Hoek van der Hooplaan), Amstelveen.
The cremation will take place on Thursday, March 20th, at 15.00 hours at the Crematorium Westerveld, Driehuis, Gemeente Velsen.

It is with regret and deep sadness that we learned of the sudden death of our Vice-President and Managing Director
MR. YUZO KATO
of the age of 48 years.
His leadership, dedication and profound interest in human relations will remain in our memories.
MANAGEMENT AND EMPLOYEES
NISSAN MOTOR PARTS CENTRE (EUROPE) B.V.
March 15th, 1986

Company Notices

UK COMPANY NEWS

UB shareholders give green light to Imps bid

BY MARTIN DICKSON

United Biscuits yesterday won the approval of its shareholders for its £2.4bn agreed takeover bid for Imperial Group, the tobacco and brewing business, which also faces a hostile bid from Hanson Trust.

The deal was approved at an extraordinary meeting on a show of hands and with proxies covering 28 per cent of the capital producing an 85 per cent "yes" vote and 15 per cent "no."

The meeting was low key, though Sir Hector Laing, chairman of United, faced some hostile questions from Mr Russell Edey of merchant bankers N. M. Rothschild, the financial adviser to Hanson Trust.

Asked to assure shareholders that United was not considering an increase in its offer, Sir Hector said that at the present time he saw no reason to increase. He also defended the controversial purchase of £36m worth of Imperial shares by Morgan Grenfell, under an indemnity agreement with United. He said the risk involved in the deal was sufficiently small not to consult shareholders, and at present prices, United was showing a £17m profit on the shares.

Sir Hector said later there was still "all to play for." He said the early acceptances received by Hanson—12 per cent of Imperial's shares—were probably from people who were wholly in support of Hanson anyway.

Small investors—believed to hold around 25 per cent of Imperial's equity, would probably follow their board's advice and back United. He still had a lot of institutional investors to see to convince them that United's bid offered a better investment, but he had been encouraged by his visits so far.

"I would like to win this battle," he added. "We will take such action as necessary to do that at the appropriate time."

He said the recent sharp rise in Hanson's share price far exceeded the rise in the market and gave him the impression the price was being supported.

He was confident that Imperial's recent agreement to sell its Golden Wonder subsidiary to Dalgety for £54m would save the Imps-United merger from a Monopolies Commission inquiry and he expected the Office of Fair Trading to announce its decision on this by the end of this week, or early next.

A small shareholder complained at the meeting that she was "fed up to the teeth" with the rival bid literature coming through her letter box, which must be costing a fortune. Shareholders, she said, had become so confused they did not know which way to turn.

Hanson said yesterday that it had increased its holding of Imperial to 9.2 per cent, through the purchase of £.25m more shares.

Watmoughs expects support from YOU

Watmoughs, the colour printer, publisher and process engraver, yesterday reported static results for 1985 but was optimistic that this year should yield a substantial and progressive profit improvement.

Turnover during 1985 rose by 14 per cent to £30.8m, but this improvement did not flow through to profits with the pre-tax balance showing a small £19,000 increase to £2.32m.

Mr P. G. Walker, the chairman, said that the second half was strongly influenced by completion of "the heavy investment programme to increase gravure and web offset capacity to meet our increased commitment for high quality colour printing.

"In particular this period included the commencement of the largest contract ever undertaken by the group—the production of the Mail on Sunday colour supplement, YOU magazine for Associated Newspapers."

Pre-production costs relating to the YOU contract cost Watmoughs £277,000 below the line which, together with a higher tax charge of £365,000 (£331,000), left attributable profits £292,000 lower at £1.68m.

Earnings per share fell by just over 3p to 18.25p but still comfortably cover an increased total dividend of 6.5p, against 6.25p, on the enlarged rights issue capital. The proposed final dividend is 4.8p (4.55p).

Mr Walker said that 1986 had "started in an encouraging manner and our well established connections will be strongly supported by the YOU Magazine contract."

BASE LENDING RATES

ABN Bank	12½%	Grindlays Bank	‡12½%
Allied Dunbar & Co.	12½%	■ Guinness Mahon	12½%
Allied Irish Bank	12½%	■ Hambros Bank	12½%
American Express Bk.	12½%	Heritable & Gen. Trust	12½%
Amro Bank	12½%	■ Hill Samuel	§12½%
Henry Ansbacher	12½%	C. Hoare & Co.	12½%
Associates Cap. Corp.	12½%	Hongkong & Shanghai	12½%
Banco de Bilbao	12½%	Johnson Matthey Bkrs.	12½%
Bank Hapoalim	12½%	Knowsley & Co. Ltd.	13 %
Bank Leumi (UK)	12½%	Lloyds Bank	12½%
BCCI	12½%	Edward Manson & Co.	13½%
Bank of Ireland	12½%	Meghraj & Sons Ltd.	12½%
Bank of Cyprus	12½%	Midland Bank	12½%
Bank of India	12½%	■ Morgan Grenfell	12½%
Bank of Scotland	12½%	Mount Credit Corp Ltd.	12½%
Banque Belge Ltd.	12½%	National Bk. of Kuwait	12½%
Barclays Bank	12½%	National Girobank	12½%
Beneficial Trust Ltd.	13½%	National Westminster	12½%
Brit. Bank of Mid. East	12½%	Northern Bank Ltd.	12½%
■ Brown Shipley	12½%	Norwich Gen. Trust	12½%
CL Bank Nederland	12½%	Peoples Trust	13½%
Canada Permanent	12½%	PK Finans. Intl. (UK)	13 %
Cayzer Ltd.	12½%	Provincial Trust Ltd.	13½%
Cedar Holdings	13 %	R. Raphael & Sons	12½%
■ Charterhouse Japhet	12½%	Roxburghe Guarantee	13 %
Citibank NA	12½%	Royal Bank of Scotland	12½%
Citibank Savings	¶12½%	Royal Trust Co. Canada	12½%
City Merchants Bank	12½%	Standard Chartered	12½%
Clydesdale Bank	12½%	TCB	12½%
C. E. Coates & Co. Ltd.	13 %	Trustee Savings Bank	12½%
Comm. Bk. N. East	12½%	United Bank of Kuwait	12½%
Consolidated Credits	12½%	United Mizrahi Bank	12½%
Continental Trust Ltd.	12½%	Westpac Banking Corp.	12½%
Co-operative Bank	*12½%	Whiteaway Laidlaw	13 %
The Cyprus Popular Bk.	12½%	Yorkshire Bank	12½%
Duncan Lawrie	12½%		
E. T. Trust	13 %		
Exeter Trust Ltd.	13 %		
Financial & Gen. Sec.	12½%		
First Nat. Fin. Corp.	13½%		
First Nat. Sec. Ltd.	13½%		
■ Robert Fleming & Co.	12½%		
Robert Fraser & Ptrs.	13½%		

■ Members of the Accepting Houses Committee.
* 7-day deposits 8.70%, 1-month 9.80%. Top Tier—£2,500+ at 3 months notice 12.06%. At call when £10,000+ remains deposited.
‡ Call deposits £1,000 and over 8% gross.
¶ Mortgage base rate.
§ Demand dep. 8¼%. Mortgage 13%.

BM Group lifts profit to £1m

Reflecting the results of the expansion programme of autumn 1984 and the acquisition of Goodwin Barsby, the diversified engineering combine BM Group has lifted its turnover by 24.5 per cent to £16.3m and its pre-tax profit from £480,000 to £1.03m in the half year ended December 31 1985.

The company, which is controlled by C. H. Beazer (Holdings), is paying an interim dividend of 0.66p net. Last time there was a similar interim followed by a 0.99p final in respect of the 15 months ended June 30 1985. The 1984 interim figures are on a pro-forma basis.

After tax £400,000 (£217,000) the net profit works through at £632,000 (£269,000) for earnings of 3.64p (1.81p).

Rank legal attack on IBA block renewed

By Raymond Hughes, Law Courts Correspondent

Rank Organisation yesterday renewed its legal attack on the block imposed on its £753m offer for the Granada Group by the Independent Broadcasting Authority.

Rank asked the Court of Appeal to overturn last Thursday's High Court ruling that the IBA's decision could not be interfered with by the courts because it had not been an exercise by the IBA of its public law powers under the 1981 Broadcasting Act.

The IBA decided on February 25 not to give Rank permission to exercise voting rights in more than 5 per cent of its shares in Granada, which includes Granada Television.

Under Granada's articles of association no shareholder may vote more than a 5 per cent holding without the IBA's approval.

The High Court decided that, when the IBA made its decision, it had been exercising a private law adjudicatory power conferred on it by the articles.

Mr Ian Hunter, QC, for Rank, contended in the Court of Appeal that, although the adjudicatory power was given by the articles, it stemmed from the IBA's statutory powers under the Broadcasting Act.

Therefore the decision had a sufficient public law element for it to be susceptible to judicial review.

If that were not the case, Mr Hunter said, the IBA would be unique among public bodies in that, in this area of its functions, its decisions were not reviewable by the courts.

The appeal, which is expected to last for the rest of this week, continues today.

Sidlaw expands in Scotland

Sidlaw Group has acquired the capital of Edwards (Aberdeen), a private company engaged principally in wholesale cash-and-carry food distribution to onshore and offshore markets in Scotland.

Initial considerations of £1.28m will be satisfied by the issue of variable rate unsecured loan stock 1987-92 of Sidlaw.

Additional consideration, up to a maximum £850,000, may be payable, based on a formula related to the gross profit performance in the year to December 31 1986 of certain elements of the business being acquired.

In the year to December 31 1985, the pre-tax profits of net tangible assets attributable to Edwards were £407,500 and £526,000 respectively.

AP reaches target with £7.5m profit

PRE-TAX PROFITS of Automotive Products for the year ended January 3 1986 are in line with the forecast made in the documents relating to the merger with the BBA Group, the conveyor belting and friction materials undertaking.

The profits are up from £3.9m to £7.5m reflecting a recovery in demand from the depressed levels of the second half of 1984 but also the effect of non-recurring factors.

BBA's offer was a one-for-one share swap, with a cash alternative, and the shares to be issued will rank for BBA's final dividend of 1.16p.

In view of this Automotive Products is not recommending a final dividend for the year; the 1p net interim, therefore, compares with a total of 1.5p paid for the previous year.

The directors say that following the reorganisation of the past few years and the merger with BBA, they expect the group position to strengthen in its chosen markets and move forward to a greater penetration of the worldwide motor industry.

Group turnover in the year was a record £260.2m (£235.6m) and the trading profit came to £17.7m (£13m). In the UK automotive division there was an improvement in margins following cost reductions and rationalisation over the years.

The principal non-recurring factors were the effect on sales of rationalising the Banbury operations into the Leamington plant (as part of the progressive closure of Banbury), a six-week strike at the UK Precision Hydraulics division and start-up costs at the new Italian brake factory. Interest charges were up £1.7m to £9.5m although the level of borrowings fell over the year.

Prior to the offer from BBA, and acting in concert with the offeror, Morgan Grenfell purchased at 130p each just over 16m shares in AP which were held by companies controlled by Mr Eric Barrett, a director of AP who subsequently resigned.

Morgan Grenfell has now placed those shares through the market, and passed on to BBA the profit arising from disposal, estimated to be over £14m before tax.

Merchants' Warehousing lower

Lower pre-tax profits, down from ££255,000 to £137,000, are reported by the Merchants' Warehousing for the 24 weeks to December 14 1985.

Revenue of this Dublin-based company—it carries on business of grain discharging, conditioning and dry storage—was fractionally ahead at £1.68m compared with £1.65m, and trading profits, after charging all expenses, were £108,000. The directors say trading profits are expected to improve as the full effect of the additional investment in the Cork cold store is realised.

The interim dividend is unchanged at 0.8p net, and stated earnings per 25p share fell from 2.76p to 2.07p.

BOARD MEETINGS

TODAY

Interims: Armstrong Equipment, Logica, George H. Scholes, Sidlaw, Strong and Fisher, TSW-Television South West.

Finals: Allde, Slyde Petroleum, BRG, Great Northern Telegraph, Hepworth Ceramic, J. Hewitt (Fenton), International Thomson, Jamesons Chocolates, Jones and Shipman, Jove Investment Trust, Leda Investment Trust, Macallan-Glenlivet, Hugh Mackay, Refuge, Rentokil, Steckley.

FUTURE DATES

Interims—	
Gabicci	Apr 2
Kalamazoo	Apr 17
Mayhew Foods	Mar 20
Minerals and Resources Corpn.	Mar 21
Pinechurch US Growth Fund	Mar 25
Reliable Properties	Mar 21
Renishaw	Mar 20
Zambia Copper Investments	Mar 21
Finals—	
Aldcorn International	Apr 7
Ash and Lacy	Apr 8
Associated Book Publishers	Mar 26
CCA Galleries	Apr 1
Charterhall North America	Mar 24
Christie's International	Apr 2
Coates Brothers	Apr 2
Combined English Stores	Mar 25
Eleco Electro-Optics	Apr 3
Edinburgh Financial Trust	Mar 20
Estates and General	Mar 25
Gibbs and Dandy	Mar 24
G.T. Dollar Fund	Mar 26
House of Lerose	Mar 27
Jacks (William)	Apr 2
Johnson Group Cleaners	Mar 25
Jones (A.)	Mar 20
Keep Trust	Mar 26
London and Manchester	Apr 2
Monument Oil and Gas	Mar 28
More O'Farrell	Apr 7
Oldfield Inspection Services	Apr 8
Pentland Industries	Apr 7
Petranol	Mar 24
Petrocon	Apr 15
Rockware	Mar 26
Schroders	Mar 20
Southampton Isle of Wight and South of England Royal Mail Steam Packet	Mar 25
Sovereign Oil and Gas	Mar 24
Steel Burrill Jones	Mar 26
Taylor Woodrow	Mar 15
Technical Component Industs.	Mar 24
Trinity International	Mar 20
Wills Group	Mar 25
Wold	Mar 26
Wolstenholme Rink	Mar 25
Woolworth	Mar 26

TECHNOLOGY

Peter Marsh on a novel link between new scientific concepts and business

GrandMet's nursery for bright ideas

THE IDEAS of six technological entrepreneurs are under evaluation in a novel scheme by Grand Metropolitan, the £5.8bn-turnover beer to hotels multinational, which is looking to introduce new scientific concepts into its commercial activities.

The six, whose interests range between computer-aided design, biotechnology and electronics, have applied to take space in a high-technology "nursery" that the company is setting up on the science park at Surrey University in Guildford.

They were selected from 600 men and women who have responded to requests over the past year from Grand Metropolitan for ideas from people interested in building up a technology-based business.

The provision of the nursery — which two or three of the six entrepreneurs are due to move into within the next few months — is part of a plan by Grand Metropolitan to introduce its diverse range of businesses to new scientific thinking that can influence both products and processes.

Grand Metropolitan Biotechnology (GMB), a company set up in 1982 to act as a holding group for activities in biosciences and related areas, will share the building with the new enterprises.

GMB already owns or has a stake in three *small concerns* — Biokits, Biocatalysts and Flexigauge, two of which are involved with biology and the other with materials. The ideas from these enterprises, which are based away from Surrey, are already infiltrating into other parts of Grand Metropolitan, though the company is reluctant on commercial grounds to go into details.

A key role for GMB is to generate research that could be useful in the parts of the Grand Metropolitan empire concerned with food and drink. These companies include Watney Mann (brewing), International Distillers (wines and spirits), Express Dairy and Eden Vale (milk and dairy products), ALPO Petfoods and Atlantic Soft Drink.

"We hope to capture details about technologies that the research departments of the companies within the group may not cover," explains Mr David Alcock, GMB's commercial director.

Biology related technologies such as fermentation, effluent treatment and chemical analysis have obvious relevance to the food and drink concerns within the GrandMet group. But the multinational also sees ideas from the small concerns as having applications in some of its other technology-based business areas, which include printing, computers, heating and ventilation, health care and hotels.

"Biotechnology is our focus," says Dr George Christie, managing director of GMB. "But we don't have to become hung up on it."

Grand Metropolitan began thinking about a "nursery" after realising it could benefit through becoming the landlord for a number of small businesses — in which the company would not necessarily have a stake — under one roof. It wanted the building to be close to a centre of scientific expertise and with good links to London and Heathrow Airport.

After talking to a number of universities in South East England, *it decided in 1983* to base the unit in Guildford. The £1m nursery was completed last July.

Mr Alcock explains that one aim of running the nursery is to find out about the special requirements of small, science-based companies. He is not necessarily looking for an obvious "fit" between the businesses and other parts of Grand Metropolitan — though due to the breadth of the company's business interests, almost any technology could be capable of helping some part of the group.

Among the technologies the company is keen to see represented at the nursery are fibre optics, factory automation, ultrasonic equipment and computer-aided design.

Management expertise gained through aiding the small concerns — they will be given accountancy and marketing advice and help in arranging sources of finance—may, thinks Mr Alcock, help Grand Metropolitan in starting new activities that are entirely unrelated to new technology.

The six entrepreneurs whose ideas Grand Metropolitan is studying—and whose identities, at least for the moment, are secret — are a mixture of academics and people from existing technology-based industry.

The company will probably select two or three of these as suitable for taking space in the building. Thereafter, Grand Metropolitan hopes to introduce start-ups to its nursery at the rate of about two a year.

Some, the company hopes, will stay for only a year or two before moving to larger premises because their businesses have become so successful.

The Grand Metropolitan managers were impressed by the range of ideas brought to them over the past year in response to advertisements, but disappointed that many of the applicants for space in the nursery seemed to lack much knowledge of business planning.

The young companies will pay Grand Metropolitan a rent at commercial rates and will normally be expected to find their own sources of finance. Mr Alcock indicates, however, that his company may be prepared to inject up to several hundred thousand pounds into a business start-up if its ideas look particularly promising.

HOW ACADEMIC WORK HAS PROVED SUCCESSFUL

GRAND Metropolitan Biotechnology has three existing subsidiaries, all of which started as a result of academic work:

Biokits, based in Deeside, makes diagnostic kits for the food industry, to determine whether food contains contaminants, for instance. The company evolved out of research at the North East Wales Institute in Queensferry.

Biocatalysts, which has strong links with biotechnologists at the University of Wales, is based in Treforest, near Cardiff, and makes specialist enzymes. These substances, which act as biochemical catalysts, can be used to hasten chemical reactions in commercial activities such as waste treatment and the production of food flavourings.

Flexigauge, on the West of Scotland Research Park, near *Glasgow*, produces piezoresistive polymers, of wide use in materials engineering. This type of polymer can be made into novel strain gauges; as the material stretches, its resistance changes by a known amount, a factor that can be measured to produce a figure for the stress put on the substance. The gauges can be used in air conditioning equipment to monitor the movement of gases and in offshore platforms to check on oil flow.

Grand Metropolitan has a 75 per cent stake in Flexigauge while it owns all the shares in the other companies.

Sperry link with British consultancy centre

By Nick Garnett

THE Advanced Manufacturing Technology Centre (AMTeC), which offers UK companies advice on computer integrated manufacturing, has reached an agreement whereby it will be allowed to use the management expertise of Sperry, the US computer and engineering group.

AMTeC was set up two years ago by the University of Manchester Institute of Science and Technology, Salford University and the Machine Tool Industry Research Association. *It has* agreed to purchase more than £1.5m of computer hardware from Sperry over the next five years. This will be used to help run the services it offers manufacturing companies from its base in Macclesfield, Cheshire.

The agreement is similar to that between the Cranfield Institute of Technology and IBM, of the US.

Estimates of how much money UK companies needlessly lock up because of poor inventory control and manufacturing inefficiency range from between £4bn to £8bn. AMTeC says more integrated manufacturing sys*tems* could help *release* this money, which would then be free to reinvest in advanced manufacturing techniques.

The consultancy services and help with installation that AMTeC is offering on the shop-floor is initially being geared to those companies with batch production runs, but will be extended to continuous processing.

Mr Roger Crossley, managing director of AMTeC, said that although computer integrated manufacturing programmes would be based on Sperry systems and support services, this would not preclude the technology centre recommending other companies' hardware where this was appropriate.

Market ripe for Japanese attack

COMPUTER-AIDED design (CAD) could be the next electronics market the Japanese will attack in earnest, following an announcement from Nippon Kokan (NKK) that it is acquiring a 25 per cent interest in Tokyo Technical Consultants (TTC).

***Most Western CAD industry* observers believe that because computer aided design, manufacturing and engineering (CAD/CAM/CAE) cannot be supplied as a boxed product with minimal support, the Japanese will not see it as an export proposition.**

But these systems form the *foundation* of the *next big* industrial technology, CIM, or computer integrated manufacturing, in which all the computers in a factory will work together, *so it seems unlikely* Japan will ignore the Western market.

TTC is one of Japan's leading CAD exponents and NKK *hopes to* commercialise *its* CAD / CAM developments through equity participation in TTC. NKK has many years of experience in applying these techniques in its own machinery and shipbuilding operations.

WORTH WATCHING

EDITED BY GEOFF CHARLISH

WORD PROCESSING from Amstrad, whose success in the UK market has surprised everyone, becomes an even better proposition with a new model, the PCW8512.

Most retailers says Amstrad, have had requests for a machine with more capacity. The new model has a *pair* of *three-inch disk drives* of 368k and 720k capacity and the random access memory has been extended to 512k. The result is greater text storage capacity and faster functioning. More on 0277 228888.

SMALL DISH satellite earth stations are to be marketed jointly by Satellite Business Systems of Virginia and the Massachusetts dish maker, M/A COM.

M/A COM's 1.8 metre "Personal Earth Station" (PES) sends data at 128,000 bits a second (about 16,000 characters a second) and receives *it* at 512,000 bits/sec.

Personal computers, computer terminals and similar *units* at *remote locations will* be line connected to a PES. Data processing centres with which these need to communicate will use a special shared *groundstation* and the two locations will be linked by satellite. SBS *is in* McLean, Virginia on (703) 442 5000.

HOME HIGH-TECH will continue to grow in popularity, according to a MORI public opinion *study commissioned* in the UK by Philips Electronics.

Part of a £6.5m extension to Ford's vehicle emission laboratory in Dunton, Essex, includes display terminals for tests run on a dynamometer. There are now 11 test cells like this, in which a car's exhaust emission on the road can be *exactly simulated* and recorded.

In new homes, the most attractive developments foreseen in the next decade are *satellite television receivers* and flat screen TV sets that will hang on the wall.

In general, the new devices people expect to have in their homes ten years from now are *headed by microwave ovens*, video recorders and cordless telephones.

Improvements by Swiss in production of foil

ALUMINIUM FOIL of uniform thickness down to 0.007 mm has been achieved at Aluminium Walzwerke, using hydrostatic bearings supplied by Sulzer-Escher Wyss of Zurich.

In these patented Nipco bearings, the contact line force acting on the material being rolled is adjustable in *individual* sections *so* as to be uniform over the whole working width. Surface evenness, it is claimed, is better than that obtained *from rolling mills with traditional* rolls. More from the company in Zurich on 246 2024.

MOT CERTIFICATES are being stolen in their thousands (43,000 in 1985) and the Department of Transport *is insisting* that each *of* the UK's 17,000 test stations use a robust safe and a security container in which blank certificates and embossing stamp will be kept.

Racal Chubb is offering a suitable unit which costs £315 installed. More on 0932 765838.

HOME CAR mechanics will be attracted to an idea from Metro Products (Accessories and Leisure) of Oxted, Surrey, which takes the messiness out of an oil change.

The problem, even for the most agile, is unscrewing the sump drain plug, with a receptacle in the right position to catch the oil.

A modified drain plug, supplied in a kit by Metro Products, incorporates a one-way valve which once fitted, allows the simple insertion of a plastic connector to start the oil draining. A brass dust cap *keeps the valve entry clean* between oil changes. More on 08833 7644.

FT COMMERCIAL LAW REPORTS

Shipowners face negligence claim for providing defective vessel

THE DERBYSHIRE
Queen's Bench Division (Admiralty Court): Mr Justice Sheen: March 14 1986

A SHIP is "equipment" provided by an employer shipowner for the purpose of his business; and accordingly, where a mariner is lost at sea due to the ship's faulty construction, his estate is entitled to claim damages against the shipowner in that, although the loss is attributable to the shipbuilder, it is also attributable to the shipowner's negligence in providing defective equipment.

Mr Justice Sheen so held when giving judgment for the plaintiffs, administratrices of the estate of Mr Leo Coltman, on a preliminary issue in their claim for damages against the defendant owners of the Derbyshire on which Mr Coltman lost bis life.

Section 1 of the Employers' Liability (Defective Equipment) Act 1969 provides: "(1) Where . . . (a) an employee suffers personal injury in the course of his employment in consequence of a defect in equipment provided by his employer for the purposes of the employer's business; and (b) the defect is attributable wholly or partly to the fault of a third party . . . The injury shall be deemed to be also attributable to negligence on the part of the employer . . . (3) 'equipment' includes any plant and machinery, vehicle, aircraft and elothing; 'personal injury' includes loss of life. . ."

★ ★ ★

HIS LORDSHIP said that on September 9 1980 the Derbyshire sank off the coast of Japan with the loss of all hands.

Mr Coltman was third engineer. The plaintiffs brought the present action to recover damages on behalf of his estate and for the benefit of his dependent widow and daughter.

Derbyshire was an "OBO" carrier of 91,650 gross registered tons, built in 1976. She ought to have been built to withstand any weather conditions.

The plaintiffs contended that her design and construction were defective and not in accordance with Lloyd's rules. They also contended that Derbyshire was unseaworthy and broke in two immediately forward of her bridge and accommodation, with the result that the after super-structure and bridge sank very rapidly.

They alleged negligence on the shipowners' part in failing to ensure that the ship was properly constructed. They further alleged that Mr Coltman lost his life "in the course of bis employment in consequence of a defect in equipment provided by his employer for the purposes of his employers' business," within section 1 of the Employers' Liability (Defective Equipment) Act 1969.

It was contended that if thet further allegation was made good, the loss of life of the deceased must be deemed to be attributable to negligence on the shipowners' part without prejodice to any remedy they might have against the shipbuilders.

The shipowners denied that the vessel constituted "equipment."

The preliminary point to be decided was whether the vessel was "equipment" provided by the shipowners witbin the meaning of section 1.

The eardinal rule of construction was that words of a statute must be given their primary and ordinary meaning.

Miss Bucknall for the plaintiffs contended that in the context of section 1 the plain meaning of "equipment" was all the paraphernalia used by an employer for the purpose of bis business. A company engaged in tbe business of transporting iron ore in bulk from Canada to Japan would eqnip itself with ships.

Accordingly, she said, a ship was part of the equipment provided by the employer for the purposes of bis business. She contended that a ship fell within "plant" and "vehicle" in section 1(3).

In the Oxford English Dictionary the seventh meaning of "vehicle" was "any means of carriage, conveyance or transport; a receptacle in which anything is placed in order to be moved."

Miss Bucknall said that definition sbowed the word was used in a seose which was apt to embrace all forms of conveyance, including ships.

Mr Hay contended that in its natural meaning "vehicle" was used in the sense given it in the Sborter Oxford Dictionary — "e means of conveyance provided with wheels or runners . . ." or, as in Black's Law Dictionary, "that in or on which persons goods etc may be carried from one place to another, especially on the ground."

He submitted that in the shipping industry a ship constituted *a mariner's place* of work, and the machinery on board was the equipment. He drew an analogy between a ship as the eqoivalent of factory premises on the one hand and plant and machinery as equipment on the other.

But the definition of "equipment" included "any vehicle or aircraft." If a ship was the equivalent of the premises in which the crew worked, why was the same not true of aircraft?

In support of his contention Mr Hay drew attention to section 1 nf the Occupiers' Liability Act 1957, which enacted rules to regulote the duty which an occupier of premises owed to visitors. He said the rules also applied to regulate the nbligations of a person occupying any moveable structure including any vessel, vehicle or aircraft.

Thera were twn answers to that submission. The first was that if a ship ought to be regarded as the premises in which a man worked, then by parity of reasoning so ought "a vehicle or aircraft." Yet equipment was defined as including a vehicle or aircraft.

The second was that the two Acts were not comparable. The Occupiers' Liability Act set a standard of care. The Employers' Liability Act provided a remedy in damages when an employee was injnred or killed in the course of bis employment by reason of defective equipment provided by his employer.

It was a legitimate aid to construction to consider the mischief the statute was inteoded to remedy.

The Act was passed to give on injured workman a right to recover damages from his employer if his injury was attributable *to any defect* in equipment provided by the employer for the purpose of his business.

Before the passing of the Act the workman would have hsd to seek a remedy from a supplier or manufacturer who might be in a foreign country, or untraceable or not worth suing.

It was to be presumed that Parliament did not intend to pass an Act which, on its true construction, would be manifestly unjust or absurd. Miss Bucknall cootended that it would be absurd and unjust if a steward on a *train* or *aircraft* had the benefit of the Act, and a steward in a ship did not.

Likewise, dependants would have a remedy against shipowners if the ship sank because of an explosion in her defective machinery, but not if the ship was so badly constructed that it broke in two.

Parliament could not have intended any such absurd and uojust result.

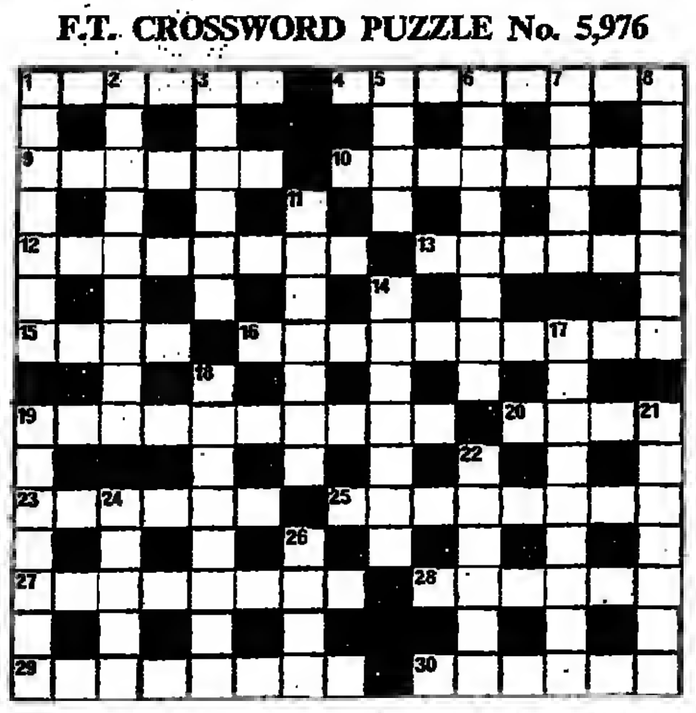
For those reasons it was held that the ship was "equipment" provided by the shipowners within the meaning of section 1.

For the plaintiffs: Belioda Bucknall (Ervill and Coleman).
For the shipowners: Robin Hay (Holman Fenwick and Willan).

By Rachel Davies
Barrister

THESE REPORTS, together with full texts of judgments, are published in monthly volumes. For subscription details contact Kluwer Lew Publishing, Africa House, 68 Kingswsy, London WC2B 6BD. Phone 01-831 0391.

F.T. CROSSWORD PUZZLE No. 5,976



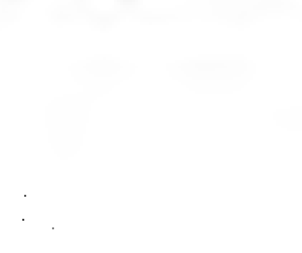
ACROSS

1 Set a journalist to occupy a top player (6)
4 Fail—or pass by mistake (8)
9 Cast about and find the drink (6)
10 Old husband incarcerated in vile prison (8)
12 Cartoonist converting a manor, it appears (8)
13 The way a little citrus tree tends to grow big (6)
15 No Spanish article for him! (4)
16 To back the employee isn't new (6-4)
19 Engineers forced to be reasonable (10)
20 Storm caused by parking on drive (4)
23 Wear for formal occasions—which includes work (3,3)
25 Using lever and breaking it is a bloomer (8)
27 Sense there's agreement among rowing men (8)
28 A stone of fish after making some deduction (6)
29 Mark will divide beasts, being a scheming fellow (8)
30 Forward child pocketing a tip (4,2)

DOWN

1 U.S.A. isn't disposed to give support (7)
2 People asking questions of pitmen following cut-back (9)
3 Some gambling women dearly love to win (6)
5 None hurried to make port (4)
6 Compass for working out altitude (8)
7 This beats vegetables! (5)
8 "Mammon, the least . . . Spirit that fell from heav'n." Milton (Paradise Lost) (7)
11 Animal-refuge that's about right for a certain group (7)
14 Say mode will change — but not yet (7)
17 A party around the bar Edward left (9)
18 Establishing credit, being a consumer (8)
19 After this a worn-out traveller should be ready to travel on (7)
21 A strict man turned up and managed to hold it (7)
22 Walker, at one point a deputy (6)
24 Bear down on newsmen (5)
26 Form of hose covering only the foot (4)

Solution to Puzzle No. 5,975



APPOINTMENTS

New managing director at Arthur Bell & Sons

Mr Robert Hermans has been appointed managing director of ARTHUR BELL & SONS, Perth. He is chief executive officer of Seagram UK and e director of Seagram Distillers, with responsibility for all commercial activities in the United Kingdom and Ireland. He joins Bell in April. **Mr David Harley**, currently joint managing director, becomes vice chairman with special responsibilities for international projects and trade relations in the UK.

★

DAKS SIMPSON GROUP has appointed **Mr John J. Cohen** a non-executive director from June 1.

★

Mr R. J. Fellden, a director of Lazard Brothers & Co, has beeo appointed to the board of ENERGY RECOVERY INVESTMENT CORPORATION and of Cambridge Petroleum Royalties.

★

HIRAM WALKER INTERNATIONAL has appointed **Mr Richard Watling** director of marketing. He joins from Rothmans International wberc be was marketing director of tha UK division.

★

LOGICA is appointing four executive directors to the main board on May 1. All the directors are currently directors of operating subsidiaries of Logica. **Mr Andrew Karney** is managing director of *Logica Communications and Electronic Systems.* **Mr Ian Macleod** is managing director of Logica Financial Systems. **Mr Brian Martin** is director of corporate services for *Logica* UK and *Logica* International. **Dr David Stanley** is managing director of Logica Cambridge. In addition to continuing in their current roles, the above will have expandad corporate and international responsibilities.

★

NEWCHURCH & CO has appointed as its first chairman **Professor Sue Birley**, research professor in entrepreneurship at Cranfield School of Management. **Mr Kingsley Manning** has been appointed managing director. The board has also been joined by **Professor David Norburn**, professor of business policy at Cranfield School of Management and by **Mr John Sutcliffe**. Both Professors and Mr Manning were previously directors of The Guidehouse Group and Greyfriars.

★

NATIONAL & PROVINCIAL BUILDING SOCIETY has appointed **Sir John Sparrow**, **Mr David Fincham** and **Mr Samuel Brittan** to the Society's London advisory board. Sir John is a director of Morgan Grenfell Holdings and deputy chairman of Short Brothers. Mr Fincham is a managing director of Alexanders Discount. Mr Brittan is an economics specialist and assistant editor at the Financial Times.

★

Mr Bob Spence has been appointed group finance director of the special services group of the NATIONAL FREIGHT CONSORTIUM. He was finance director of the NFC parcels group.

★

LAZARD BROTHERS & CO. has appointed **Mr Alan Saunders**, **Mr Philip Stevens** and **Mr David Steyn** as directors of Lazard Securities, its investment management subsidiary. Prior to joining Lazard Securities as a director of investment strategy, Mr Saunders was head of the oil pricing unit at Shell International. Mr Stevens joins as marketing director UK and was previously a director of investmeot management services for Hambros Bank. Mr Steyn joins as marketing director international and was a director of Aetna Montagu Asset Management.

★

Dr Guido Golzaskas de Anna has joined the board of Lloyd's reinsurance brokers, D. G. DURHAM & CO. Formerly representative for Europe with the British & European Reinsurance Co, he will have special responsibility for the development of the European account.

★

Mr Brian Davies has been appointed group managing director of BERGER, JENSON & NICHOLSON. He succeeds **Mr Terry Collins** who will continue as chairman until his retirement early next year. Mr Davies was overseas regioos director. *Mr Klaus Görtz* becomes group finance director, a role he has had since the retirement of **Mr Mike Lowe** last year. From July 1 **Mr Reinhard Traub**, at present managing director of Hoechst East Africa, becomes overseas director of the group. The appointments are intended to develop closer relationships between the Berger Group and Hoechst.

★

STEMCO TRUCK PRODUCTS has appointed **Mr Ray Bain** as European vice president. He will be responsible for the company's five subsidiaries in Britain, France, Germany, Spain and Switzerlaod. His brief includes an appraisal of existing sourcing arrangements which could result io the establishmeot of a European maoufacturing facility, possibly in the UK. Mr Bain, who was formally vice president of marketing for Stemco Canada will be based at the company's UK subsidiary in Newbury, Berkshire. Stemco Truck Products is a division of Gerlock, which is part of Colt Industries of the US.

★

The MIDKEM GROUP has appointed **Mr Alan Ashforth** to the main board as group *sales* and marketing director.

★

Mr R. Palumbo, deputy chairman, has become chairman of CRAY ELECTRONICS HOLDINGS. He joined the company in 1980 and until 1983 was the chief executive. **Mr B. P. Collins**, group chief executive, has been appointed deputy chairman. **Mr B. A. Solomon**, previously chairman, has retired due to ill health.

★

From April 1 **Mr Francis Lister** and **Mr Colin Williams**, who are currently directors, are appointed assistant managing directors of BRITISH HOME STORES. **Mr Pat Diamond**, **Mr John Hobson** and **Mr Ray Netherwood** join the board. They are divisional directors and members of the executive committee. **Mr Martin Toogood** becomes a divisional director and joins the executive committee. **Mr Keith Smith** is made company secretary.

★

Mr Harry Woolley will retire as a main board director and as chairman of BICC CABLES in May. **Mr Eric Clark**, who joined BICC in December last year from The Plessey Company as managing director of BICC Cables and as a main board director, will succeed Mr Woolley as chairman, and will remain managing director. Mr Woolley will remain a consultant to the board for the remainder of 1986.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

Oppenheimer Fund Mngt Ltd
66 Cannon St, London EC4N 6AE Dlg. 01-236 3885

International Growth	131.0	140.2	..	0.90
Income & Growth	60.9	65.2	..	1.00
Special Situations	78.6	84.1	..	4.40
American Growth	33.5	35.9xd	..	0.70
Japan Growth	48.1	51.5	..	0.00
European Growth	58.2	62.3	..	2.30
UK Growth	53.0	56.7	..	0.80
Pacific Growth	40.4	43.3	..	0.10
High Income	30.5	32.7	..	8.40
Practical Income Units	49.6	52.8xd	..	2.30
Practical Accum. Units	89.7	95.5xd	..	2.30

Pearl Trust Managers Ltd (a)(g)
252 High Holborn, WC1V 7EB 01-405 8441

Pearl Growth Fd.	86.6	92.1	-0.2	2.40
Accum Units	127.9	136.1	-0.3	2.40
Pearl Inc.	116.5	123.9	+0.1	4.06
Pearl Unit Tst.	123.0	130.9	-0.2	3.17
(Accum. Units)	210.7	224.1	-0.3	3.17
Pearl Intl Equity	118.9	126.5	-1.0	1.65
(Accum Units)	118.9	126.5	-1.0	1.65

Perpetual Unit Trust Mngmt. (a)
48 Hart Street, Henley on Thames 0491 576868

International Growth	257.3	276.1	..	1.20
Income	185.6	198.8	..	4.97
Worldwide Recovery	143.9	154.4	..	1.87
American Growth	69.8	74.9	..	0.94
Intl. Emerging Cos.	78.0	83.8	..	0.60
Far East Growth Fd.	61.7	66.2	..	1.06
European Growth Fd.	54.5	58.5	..	2.0

Stewart Ivory Unit Trust Mgrs Ltd (a)
45 Charlotte Sq, Edinburgh

Sun Alliance Fund Management Ltd

Sun Life Trust Mgmt. Ltd
107 Cheapside, London EC2V 6DU

INSURANCES

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

World Fund S.A.
2 Boulevard Royal, Luxembourg

World Wide Growth Management◆
10a, Boulevard Royal, Luxembourg

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg

Zero Bond Fund Limited
PO Box 208, St Peter Port, Guernsey 0481 26268

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
The Charities Deposit Fund 77 London Wall, London EC2N 1DB 01-588 1815				
Deposit	12.40	—	—	3-Mth
The Money Market Trust 03 Qn Victoria St, EC4N 4ST 01 236 0952				
Call Fnd	12.52	9.26	13.76	Mth
7-day Fnd	12.75	9.29	13.80	Mth
Oppenheimer Money Management Ltd 66 Cannon St, EC4N 6AE 01-236 1425				
Call Fnd	12.63	9.44	12.90	6-Mth
7-day Fund	12.58	9.40	13.34	6-Mth
Dollar	6.50	—	—	6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc 22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
Full Service Chq Acc.	11.50	8.50	12.53	Qtr
Aitken Hume 30 City Road, EC1Y 2AY 01-638 6070				
Treasury Acc	12.00	8.91	13.26	Qtr
Mth. Inc. Chq.	12.00	8.97	13.36	Mth
Allied Arab Bank Ltd 97-101 Cannon St, London EC4N 5AD 01-283 9111				
HIBCA	12.60	9.43	14.05	Mth
Bank of Scotland 38 Threadneedle St, EC2P 2EH 01-628 8060				
Money Mkt Cheque Acc.	11.05	8.25	12.28	Mth
Barclays Prime Account PO Box 125, Northampton 0604 252891				
High Int Cheque	11.50	8.50	12.54	Qtr
Britannia Investment Services Ltd. 74-78 Finsbury Pavement, EC2A 1JD 01-588 2777				
Cater Allen	12.00	8.97	13.35	Mth
Charterhouse Japhet plc 1 Paternoster Row, EC4M 7DH. 01-248 3999				
Sterling	12.25	9.16	11.64	Mth
U.S. Dollar	7.25	7.25	7.50	Mth
German Marks	4.25	4.25	9.31	Mth
Swiss Francs	1.50	1.50	1.51	Mth
Japanese Yen	5.00	5.00	5.12	Mth
Citibank Savings St Martins Hse, Hammersmith Grove 01-741 9941				
Money Market Plus	—	9.05	13.47	Mth
Co-operative Bank Cheque & Save 78-80 Cornhill EC3 01-626 6543				
£500-£2,500	9.50	7.10	10.41	Qtr
£2,500 +	12.06	9.02	13.33	Qtr
Dartington & Co Ltd Dartington, Totnes, Devon TQ9 6JE 0803 862271				
Money Mkt Acc	12.00	8.97	13.24	Qtr
Edward Manson & Co Ltd 9 Henrietta Place W1M 9AG 01-631 3313				
Client Deposit Acc	12.50	9.34	13.93	Mth
Henderson/Bank of Scotland 38 Threadneedle St EC2P 2EH 01-628 8060				
Money Mkt. Cheque Acc.	11.05	8.25	12.24	Mth
Legal & General (Money Mngrs) Ltd 356 Euston Road, NW1 3AG 01-388 3211				
High Int Dep Acc.	12.04	9.00	13.14	6-mth
Lloyds Bank PLC 71 Lombard St, London EC3P 3BS 01-626 1500				
HighIntCheque Account	11.75	9.00	13.30	Qtr
Lombard North Central PLC 17 Bruton St, W1A 3DH 01-409 3434				
14-Day Notice	12.00	0.970	12.824	—
M & G/Kleinwort Benson 91-99 New London Rd, Chelmsford. 0245 51651				
H I C A	12.00	8.97	13.37	Daily
Midland Bank plc PO Box 2, Sheffield. 0742 20999 Ext 8655				
High Int Chq Acc	11.[illegible]	8.75	12.92	Qtr
£10,000 +	12.04	9.00	13.30	Qtr
Oppenheimer Money Mgmnt. Ltd 66 Cannon St, EC4N 6AE 01-236 1425				
Money Mngt. Acct.	12.00	8.97	—	3-Mth
Phillips & Drew Trust Ltd 120 Moorgate, London EC2M 6XP 01-628 9771				
High Int Chq Acc.	12.625	9.44	13.97	Qtr
Provincial Trust 30 Ashley Rd, Altrincham, Cheshire 061-928 9011				
High Int Chq Acc	12.50	9.34	13.52	Mth
Royal Bank of Scotland plc 24 Lombard St, London EC3V 9BA 031-557 0201				
Premium Account	12.05	9.00	13.31	Qtr
Save & Prosper/Robert Fleming 28 Western Rd, Romford RM1 3LB. 0708 66966				
H.I.D.A.	11.57	8.65	12.90	Daily
Tyndall & Co 29-33 Princess Victoria St, Bristol 0272 732241				
Demand Acc	12.04	9.00	13.39	Qtr
Money Acc.	12.04	9.00	13.29	Qtr
J. Henry Schroder Wagg & Co Ltd Enterprise House, Portsmouth 0705 827733				
Special Acc.	12.00	8.97	11.36	Mth
Over £10,000	12.25	9.16	13.64	Mth
Western Trust & Savings Limited The Moneycentre, Plymouth PL 1SE 0752 24141				
High Int Chq Acc.	12.25	9.15	13.54	Qtr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ‡ Suspended. ◆ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◆ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		p
Allied-Lyons	28	Marks & Spencer	13
BAT	26	Metal Closures	14
BOC Grp	27	Midland Bk	35
BSR	8	NEI	10
BTR	35	Nat West Bk	55
Babcock	13	P & O Dfd	35
Barclays	33	Plessey	14
Beecham	39	Polly Peck	21
Blue Circle	50	Racal Elect	15
Boots	24	RHM	12
Bowaters	30	Rank Org Ord	35
Brit Aerospace	32	Reed Intnl	60
Brit Telecom	17	Sears	11
Brown (J.)	3½	TI	35
Burton Ord	45	Tesco	24
Cadburys	13	Thorn EMI	34
Charter Cons	18	Trust Houses	12
Comm Union	23	Turner Newall	9½
Courtaulds	13	Unilever	90
Distillers	36	Vickers	[illegible]
FNFC	12	**Property**	
Gen Accident	55	Brit Land	14
Gen Electric	14	Land Secs	26
Glaxo	130	MEPC	26
Grand Met	30	Peachey	24
GUS 'A'	70	Samuel Props	15
Guardian	40	**Oils**	
GKN	20	Brit. Oil & Min	3½
Hanson Tst	18	Brit Petroleum	45
Hawker Sidd	36	Burmah Oil	27
ICI	42	Charterhall	4
'Imps'	16	Premier	5
Jaguar	27	Shell	55
Ladbroke	27	Tricentrol	18
Legal & Gen	60	Ultramar	18
Lex Service	24	**Mines**	
Lloyds Bank	35	Cons Gold	40
Lucas Inds	38	Lonrho	12
		Rio T Zinc	50

A selection of Options traded is given on the London Stock Exchange Report Page.

COMMODITIES AND AGRICULTURE

Australian PM plans EEC farm trade talks

By Emilia Tagaza in Canberra

THE AUSTRALIAN Prime Minister, Mr Bob Hawke, announced yesterday that he would visit several European capitals to take up Australia's concerns about the European Community's Common Agricultural Policy (CAP).

The announcement followed the cancellation of scheduled trade talks in Canberra between the Australian Government and senior EEC Ministers. An Australian trade department official said the EEC Ministers, including the commissioner for external affairs and trade, Mr Willie De Clercq, cancelled the meeting because of what was described as Australia's "unfriendly attitude."

Mr Hawke's destinations will include London, Brussels, Rome and Athens, and will follow his talks in Washington with President Reagan on April 17.

In Washington, he will discuss ways of reducing the damage to Australia's farm sector from the US Export Enhancement Program and the recently-enacted Farm Act.

He said that Australian agricultural producers are among the least protected yet most efficient in the world. "Any action which tends to damage international agricultural markets and more specifically, the access of Australian producers to those markets, will prompt reaction from (the Australian) Government."

LONDON METAL EXCHANGE WAREHOUSE STOCKS

(Changes during week ending last Friday)

	(tonnes)	
Aluminium	—14,100	to 172,225
Copper	—2,350	to 158,250
Lead	—3,150	to 59,425
Nickel	—570	to 6,342
Tin	—2,205	to 49,145
Zinc	—4,450	to 48,525
	(ounces)	
Silver	—20,000	to 40,680,000

WEEKLY METALS

All prices as supplied by Metal Bulletin.

ANTIMONY: European free market, 99.6 per cent, $ per tonne, in warehouse, 2,650-2,710.

BISMUTH: European free market, min 99.99 per cent, $ per lb, tonne lots in warehouse, 3.20-3.40.

CADMIUM: European free market, min 99.95 per cent, $ per lb, in warehouse, ingots, 0.75-0.80, sticks, 0.80-0.84.

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 9.60-9.80.

MERCURY: European free market, min. 99.99 per cent, $ per flask, in warehouse, 225-235.

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.60-2.70.

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 6.30-6.45.

TUNGSTEN ORE: European free market, standard min. 65 per cent $ per tonne unit WO3, cif, 53-61.

VANADIUM: European Free market, min. 98 per cent V2O5, other sources, $ per lb V2O5, cif, 2.38-2.41.

URANIUM: Nuexco exchange value, $ per lb U3O8, 17.00.

Tin price below £4,000

BY STEFAN WAGSTYL

TIN PRICES fell below £4,000 a tonne in unofficial markets in Western Europe yesterday on trade reports of offers of metal from banks holding International Tin Council stocks.

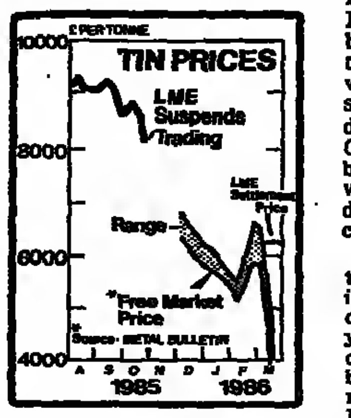
Brokers said spot tin was traded at between £3,900 and £4,000 a tonne, compared with the controversial £6,250-a-tonne settlement price imposed on outstanding tin contracts by the London Metal Exchange last week.

However, it is understood that the tin council has not been notified of any new sales by banks, which hold tin as collateral for their loans. Previously, Arab Banking Corporation, the Bank of Nova Scotia and Banque Indosuez have all sold metal.

Bankers said yesterday that it was unlikely that any banks would rush to sell tin with prices falling so quickly, in the hope that prices might subsequently recover.

The market price is now broadly in line with the most pessimistic forecasts made before negotiations for a rescue plan for the market were abandoned earlier this month by the tin council and the groups of creditors' banks and metal brokers.

The tin council, which plunged the market into difficulties in October when it ran out of money administering an inter-government price pact, spent yesterday considering the legal battles it will face as the creditors start court action to recover about £900m owed them.



The 22 member-countries were unable to decide whether or not to pool their legal costs.

There were angry exchanges at the council over the leak to a House of Commons Select Committee, which is inquiring into the crisis, of confidential ITC documents. The Trade and Industry committee last week considered documents which it was told had come to it under the US Government's Freedom of Information legislation. The US is not a member of the Sixth International Tin Agreement, but did belong to the Fifth ITA, which was never disbanded. The US delegate told the council yesterday that he was trying to identify the source of the leak. The UK delegate said that the British Government was embarrassed by the leak and would not answer any questions about the documents at the Commons committee.

Today the ITC is expected to abandon the export quotas it has imposed on tin-producing countries for the past four years. Quotas expire every quarter and have therefore to be renewed if they are to remain in force after March 31. But there is little sign that the council will renew them this time following the failure of rescue attempts for the market.

Delegates have still to decide whether they want the council to continue in existence, if only as a research body. The Sixth ITA does not expire until mid-1987.

Zimbabwe in SA maize deal

BY TONY HAWKINS IN HARARE

ZIMBABWE has agreed a $26m maize export deal with South Africa which appears to fly in the face of its own position as a strong supporter of comprehensive anti-apartheid sanctions. The sensitivity of the 200,000 tonnes sale is indicated by the fact that it has not been reported in the government-owned media.

South Africa is reported to be interested in buying a further 100,000 tonnes of Zimbabwean maize, though it may want a countertrade rather than a cash deal.

The deal follows a cabinet-level decision to run down Zimbabwe's maize stockpile, which is currently estimated at 1.5m tonnes. With annual consumption running at less than half this level (600,000 tonnes last year), the country is seeking export orders for some 750,000 tonnes of maize during 1986 of which 400,000 tonnes would be sold on a cash basis and the balance of 350,000 tonnes would be eligible for sale by barter.

Zimbabwe is expected to reap another substantial maize surplus in 1986 with current estimates suggesting deliveries this year of around 1.4m tonnes.

If this forecast is realised, it seems that even with exports of 750,000 tonnes Zimbabwe would start the next delivery season in April 1987 with an unchanged stockpile of around 1.5m tonnes. Financing charges alone for the stockpile are estimated at Z$40m (US$25m) a year.

The sale to South Africa has been completed on very favourable terms for Zimbabwe with a market price of some Z$212 a tonne, which is understood to be close to the state-owned Grain Marketing Board's break-even price.

● In spite of downward pressure on grain prices the Australian Wheat Board has been able to lift the guaranteed minimum wheat price to farmers for the 1985-86 season just completed, writes Patricia Newby in Melbourne.

The guaranteed price for Australian Standard White (ASW) which accounts for about 70 per cent of production will be A$149.87 (£72) a tonne. This is A$3.33 up on the preliminary figure at the start of the season and A$4.52 up on last season's guarantee. For Australian Prime Hard the guarantee will be A$174.87 and for Australian Hard A$154.87.

The guaranteed price is not a subsidy. It is a figure estimated by the Wheat Board based on expected market prices and the Government guarantees that estimate. It is a minimum figure per tonne that all wheat growers will get.

The Wheat Board chairman, Sir Leslie Price, said prices to growers were higher than might have been expected because the board had managed to sell more than half the 1985-86 crop before the impact of the US Farm Act began to be felt in lower prices.

More than 10m tonnes have been sold, the biggest customers being the Soviet Union, China and Egypt. This leaves around 8m tonnes, counting last year's carry-over stocks. The board expects to sell around 6m tonnes before October this year, retaining 2m tonnes in stock in case of a shortfall next season.

EEC feed makers agree grain levy challenge

BY RICHARD MOONEY

THE EEC's planned corresponsibility tax on grain production will be challenged in the European Court of Justice if implemented, the president of the UK Agricultural Supply Trade Association (Ukasta), Mr Patrick Montgomery, declared last night.

He told the annual dinner of the Scottish Compounders' Association and the Scottish Feed Executive that Ukasta and other member associations of the European Federation of Animal Feed Manufacturers (Fefac) had agreed to institute proceedings against any such tax "in an endeavour to have it rescinded."

British farmers oppose the plan on the ground that it discriminates against them because the tax would only be levied on production in excess of 25 tonnes. This would exempt many small farmers on the Continent while catching most British grain growers, who operate on a larger scale.

Quality tea cheaper at London auction

QUALITY GRADE tea averaged 196p a kilo at Monday's weekly London auction, having lost 8p of last week's advance. Medium and low medium grades were unchanged at 154p and 118p a kilo respectively. The Tea Brokers' Association said the demand was good at the sale, where 37,441 packages were on offer, including 5,400 in the offshore section.

US alarm bells toll for coffee pact

BY ANDREW GOWERS

IS THE US really preparing to pull out of the International Coffee Agreement? That is a question which is provoking feverish consultations between Washington and its allies in Latin America, and a lively debate within the Reagan Administration.

The US Government must decide in the next month whether to ask Congress to renew the technical legislation allowing for continued membership of the ICA after September 30. But routine consideration of this three-year legislation required by Capitol Hill has become caught up in a more wide-ranging review of the Administration's coffee policy. Criticism of the agreement by senior US officials has been becoming louder and more insistent since the turn of the year.

The US is by far the world's largest coffee importing nation purchasing about one-quarter of the annual exports of producing countries. A decision by Washington not to stay in the ICA would thus be a fatal blow for a commodity pact which has recently come under severe strain as a result of a rise in coffee prices prompted by this season's drought in Brazil.

ICA export quotas were suspended last month, and many observers believe it will be politically difficult to reimpose them, given the likely squabbles between producing countries over allocation of market shares.

The Reagan Administration has been generally hostile towards international price stabilisation agreements for commodities since it came to power in 1981, in contrast with the policies of its predecessor under President Jimmy Carter. It withdrew from the International Tin Agreement in 1982 and has persistently refused to join the cocoa pact.

It has shown itself prepared, however, to waive that opposition in individual cases if there were overriding political, economic or strategic reasons for doing so. In the case of the International Natural Rubber Agreement, for example, which is up for renegotiation this year, the US remains favourably disposed — partly, officials say, because the rubber pact has managed to avoid many of the pitfalls of other commodity agreements.

And on coffee, the government has so far been prepared to suppress its economic doubts over the agreement for political reasons involving the health of key coffee-producing countries and US allies in Latin America. The US coffee industry appeared quite happy with the pact for the first half of this year.

The US coffee industry has also appeared to be prepared to guarantee some stability of prices and supplies after the turbulence of the 1970s, and to deter the producers from seeking to rig prices unilaterally.

All that may be changing. For one thing, the agreement has manifestly failed to prevent a steep rise in prices over the last six months. The Administration's current review of policy — while taking into account both political and economic arguments — is doing so more critically than ever before, say officials from the State and Commerce Departments and the US Trade Representative's Office in Washington.

The world coffee trade has known since last year that a sweeping policy review was under way in the US. Many producers were inclined last autumn to dismiss Washington's threats as a form of political posturing designed to wring concessions from them as a price for continued US membership.

What has since set everybody buzzing, however, is a speech last month by Mr Allen Wallis, the Under Secretary for Economic Affairs at the State Department. Addressing the US coffee trade in Florida last month, Mr Wallis, a zealous free market economist, delivered a devastating critique of the coffee agreement on both economic and political grounds.

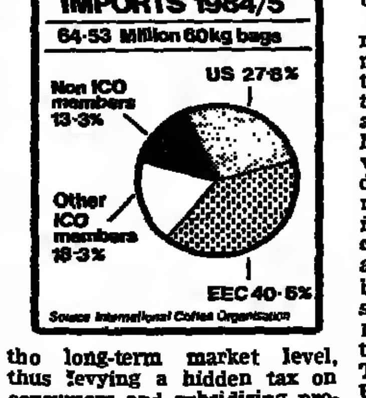
All, he said, was clearly not well with the agreement. At times it had kept prices above the level at which quotas have been set and their allocation between producing member countries.

"We have been frustrated in our attempts to make the operation of the ICA more market-orientated," he said. "Our adherence to the International Coffee Agreement gives our tacit blessing to what was intended to be a cartel arrangement to control coffee prices worldwide . . . such arrangements are inherently unworkable and carry the seeds of their own demise."

Coming from a senior member of the State Department, which has previously taken the lead in urging continued US participation in the agreement — and which is likely to be the most influential voice in the forthcoming decision as well — Mr Wallis's remarks set alarm bells ringing in a number of Latin American capitals. The Washington ambassadors of Brazil, Colombia and other countries have since been making forceful representations on the subject to anyone prepared to listen.

There are indications that the US National Security Council, ever mindful of the need to safeguard US allies in the battlegrounds of Central America, has also been weighing into the argument.

Whether their urgings will win the day remains to be seen. As Mr Wallis pointed out, the argument about the role of coffee in the fight against Communism in Central America can be used on both sides: the aid implicitly handed over under the ICA cannot, unlike other economic assistance, be made conditional on the adoption of "sound economic policies." he complained; and it goes to all producers — including some countries, like Nicaragua and Cuba, which the US does not wish to assist.



the long-term market level, thus levying a hidden tax on consumers and subsidising production in exporting countries. The resulting accumulation of excess stocks had led to discount sales to non-members of the agreement, including Soviet bloc countries which had received benefits in the form of cheaper coffee estimated to average about $110m a year. The ICA's pricing policy could also have been detrimental to the producers' long-term interests, he added: since 1962, when the US joined the agreement, per capita coffee consumption there had dropped by more than 40 per cent.

In addition, he criticised the increasingly complex and onerous controls that the ICA has been forced to implement to enforce its export quotas,

LONDON MARKETS

LONDON COFFEE dealers confessed themselves at a loss to explain sharp fluctuations on the New York home market which led to an uncertain trading pattern in London. The market moved sharply lower in the morning, reflecting overnight losses in the US, but New York's opening showed a very firm trend and London values bounced up strongly. The May position, which had slipped to £2,422 a tonne at one stage, ended the day £16 up on balance at £2,492.50 a tonne. The dealers said the market remained very nervous. They thought the early fall was influenced by a continuation of the "tired long liquidation" triggered by last week's failure to break through chart resistance levels. The cocoa market pattern was the reverse of that in coffee, though on a smaller scale. Early strength lifted nearby values by close to £20 a tonne but the gains were lost as sterling firmed and hedging sales against recent Ghana current crop contracts appeared.

LME prices supplied by Amalgamated Metal Trading.

ALUMINIUM

	Unofficial close (p.m.) £ per tonne	+ or —	High/low
Cash	801.5-25	+3.5	800-800
3 months	824.5-5	+4	831-822.5

Official closing (am): Cash 800-0.5 (802.5-3), three months 822.5-3 (822.5-3), settlement 800.5 (803). Final Kerb close: 824-5. Turnover: 15,850 tonnes.

COPPER

Higher grade	Unofficial close	+ or —	High/low
Cash	1002.5-3.5	+2	—
3 months	1022.5-3	+4.5	1026-/1016

Official closing (am): Cash 1,006-7 (999-1,000), three months 1,022-3 (1,014.5-5.5), settlement 1,007 (1,000). Final Kerb close: 1,016-17.

Cathodes			
Cash	995-8	—	—
3 months	1016-9	+4	—

Official closing (am): Cash 987-8 (983-5), three months 1,010-19 (1,010-2), settlement 988 (985). Turnover: 38,825 tonnes. US Producer prices: 69.5-75 cents a pound.

LEAD

	Unofficial close (p.m.) £ per tonne	+ or —	High/low
Cash	250-1	—1	255/251
3 months	258-8.5	—1.25	265/258

Official closing (am): Cash 252-3 (252.5-3), three months 260.5-1 (258-9), settlement 253 (253). Final Kerb close: 260-1. Turnover: 8,325 tonnes. US Spot: 18-20 cents a pound.

NICKEL

	Unofficial close (p.m.) £ per tonne	+ or —	High/low
Cash	2835-45	—15	—
3 months	2928-5	—12.5	2985/2902

Official closing (am): Cash 2,880-90 (2,886-90), three months 2,965-75 (2,969-70), settlement 2,890 (2,890). Final Kerb close: 2,920-25. Turnover: 1,126 tonnes.

TIN

Kuala Lumpur Tin Market—Close 16.4 Ringgit per kg, down 0.6 Ringgit.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or —	High/low
Cash	423-5	—1	—
3 months	435-7	—1.25	441-435

Official closing (am): 423.5-4 (425-6), three months 436-7 (437-7.5), settlement 424 (426). Final Kerb close: 435-6. Turnover: 7,500 tonnes. US Prime Western: 30.5-35.75 cents a pound.

GOLD

Gold fell $2¼ an ounce from Monday's close in the London bullion market yesterday to finish at $350¼-350¾. The metal opened at $350¼-351¼ and traded between a high of $351½-352 and a low of $349¾-349¾. Trading was confined to a narrow range and there was little impetus provided by the opening of New York. Once again uncertainty on the outcome of the Opec meeting tended to keep many people on the sidelines.

GOLD BULLION (fine ounce)	Mar. 18	
Close	$350¼-350¾	(£238-238½)
Opening	$350¼-351¼	(£239½-240)
M'n'g fix	$350.80	(£239.291)
Aft'n'n fix	$351.15	(£238.715)

GOLD AND PLATINUM COINS		
Kr'g'r'nd.	$353½-354	(£239¾-240)
½ Krug.	$185-186¼	(£126½-126¼)
¼ Krug.	$94-95	(£63¾-64½)
1/10 Krug.	$38-39	(£25¾-26½)
Mapleleaf	$361½-362	(£245-245½)
Angel	$360¼-363¾	(£244¼-246½)
1/10 Angel	$35¼-40¼	(£24-27¼)
New Sov.	$84¼-85¼	(£57½-57¾)
½ New Sov	$50¼-50¾	(£34-34½)
Old Sov.	$89-91	(£60¼-61¾)
$20 Eagle	$430-470	(£291½-318¾)
Noble Plat	$431¾-436½	(£292¾-296)

SILVER

Silver was fixed 4.75p an ounce higher for spot delivery in the London bullion market yesterday at 392.25p. US cent equivalents of the fixing levels were: spot 575.2c, up 8.3c; three-month 585.75c, up 8.45c; six-month 596.6c, up 10.45c; and 12-month 617.75c, up 10.65c. The metal opened at 393¼-394¾p (576-578c) and closed at 391½-392½p (576-578c).

SILVER per troy oz	Bullion Fixing Price	+ or —	L.M.E. p.m. Unoffic'l	+ or —
Spot	392.25p	+4.75	388p	—5
3 months	403.40p	+4.80	400.3p	—3.5
6 months	414.25p	+5.80	—	—
12 months	434.50p	+5.75	—	—

LME—Turnover: 21 (41) lots of 10,000 ounces.

Three months high/low 401.7p, final kerb 400-1p.

JUTE

JUTE—March/April 1986 c and f Dundee: BTC $420, BWC $420, BTD $360, BWD $380. C and f Antwerp: BTC $400, BWC $400, BTD $350, BWD $350.

RUBBER

PHYSICALS—The London market opened unchanged, drifted lower and closed quiet and easier, reports Lewis and Peat. Closing prices (buyers): Spot 59.00p (same); April 57.75p (58.00p); May 58.25p (58.50p). The Kuala Lumpur fob price (Malaysia/Singapore cents) per kg: RSS No 1 was 194.0 (192.0) and for SMR 20 191.0 (same).

INDICES

FINANCIAL TIMES

Mar. 18	Mar. 17	M'th ago	Year ago
—*	—*	—*	300.64

(Base: July 1 1952=100)

REUTERS

Mar. 17	Mar. 14	M'th ago	Year ago
1807.1	1810.8	1837.1	2022.3

(Base: September 18 1931=100)

DOW JONES

Dow Jones	Mar. 17	Mar. 14	Month ago	Year ago
Spot	131.40	130.27	—	117.01
Fut.	133.03	134.40	—	121.18

(Base: December 31 1931=100)

* Not available due to suspension of tin LME

MAIN PRICE CHANGES

In tonnes unless otherwise stated.

	Mar. 18 1986	+ or —	Month ago
METALS			
Aluminium			—
Free Market	$1295/315	+e	$1185/205
Copper			
Cash h Grade	£1003	+8	£984.5
3 mths	£1022.75	+4.5	£1012.25
Gold Troy oz	$350.5	—2.25	$336.5
Lead Cash	£250.5	—1	£256.5
3 mths	£258.25	—1.25	£265.75
Nickel			
Free Mkt	192/212c	+1	189/200c
Palladium oz	$115.50	+1.85	$101.50
Platinum oz	$420.00	+7.95	$373.50
Quicksilver†	$220/255		$220/250
Silver troy oz	398.25p	+4.75	410.10p
3 months	403.40p	+4.80	422.40p
Tin cash	‡		‡
3 months	‡		‡
Tungsten	$52.78		$65.63
Wolfram 22.01b	$52/60		$56/63
Zinc	£424	—1	£418.5
3 months	£436	—1.25	£428.25
producers	$650/670		$650/670
OILS			
Coconut (Phil)	‡		$322.5
Palm Malayan	$260v		$310
SEEDS			
Copra Phil	$200z		$205
Soyabean (U.S.)	$222.5x	+0.5	$222.5
GRAINS			
Barley Fut. May	£116.35	—0.50	£116.70
Maize	£141.5x		£143.50
Wheat Fut. May	£117.90	—0.10	£119.10
No. 2 Hard Wint.	‡		‡
OTHERS			
Cocoa Ft. May	£1530.5	+0.5	£1645.5
Coffee Ft. May	£2492.5	+16	£2495.5
Cotton A Index	62.75c		65.85c
Gas Oil Apr.	$158	+14.5	$150.25
Rubber (kilo)	59p		54.25p
Sugar (raw)	$174z	+1	$145
Wooltops 64s	416p kilo		428p kilo

‡ Unquoted. † Per 76-lb flask. c Cents a pound. u May. y April-May. z March-April. x April.

MEAT

April beef was valued slightly higher on the close despite weaker physicals. Pigmeat prices were slightly firmer but hedge selling interest remains just above current values, reports Eastern Capital-CCST.

Month	PIGMEAT Y'day close	+ or —	BEEF Y'day close	+ or —
	p. per kilo (deadweight)			
April	102.90	+0.40	190.00	—
May	102.80	+0.30	194.40	+5.40
June	102.50	—	183.00	+4.00
July	102.00	—0.50	—	—
Aug.	101.90	+0.30	—	—
Sep.	107.00	+0.80	—	—

Pigmeat sales: 12 (7) lots of 50 carcases, 3,250 kg.

Beef sales: 1 (0) lots of 20 sides.

MEAT COMMISSION—Average fatstock prices at representative markets. GB—Cattle 95.93p per kg lw (—0.24). GB—Sheep 222.45p per kg est dcw (+1.28). GB—Pigs 75.52p per kg lw (—2.69).

COCOA

Futures opened unchanged although due lower, and following a rally of £18 eased gradually to close unchanged. Some light producer interest was rumoured but consumers continued withdrawn, reports Gill and Duffus.

COCOA	Yesterday's Close £ per tonne	+ or —	Business Done
March	1636-1538	—1.5	1559-1539
May	1630-1531	+0.5	1548-1524
July	1556-1558	—8.0	1578-1555
Sept.	1588-1589	—	1605-1584
Dec.	1618-1610	—3.0	1634-1615
March	1648-1648	—2.0	1661-1646
May	1665-1875	—4.0	1686-1673

Sales: 3,548 (1,903) lots of 10 tonnes.

ICCO indicator prices (US cents per pound). Daily price for March 18: 98.99 (98.23): five-day average for

COFFEE

Against a poor New York close London opened around £50 lower with selling from commission houses finding trade buying. New York opened steady and rose, forcing London to follow suit. Renewed physical interest was found with good interest in the European market and prices rose quickly, reports Drexel Burnham Lambert.

COFFEE	Yesterday's Close	+ or —	Business Done
March	2440-60	+22.5	2438-2385
May	2498-93	+16.0	2500-2422
July	2567-60	+18.0	2560-2486
Sept.	2602-05	—4.9	2615-2548
Nov	2660-65	—7.5	2665-2595
Jan	2685-90	—20.0	2688-2620
Mar.	2680-20	—27.5	2665

Sales: 7,560 (4,051) lots of 5 tonnes. ICO indicator prices (US cents per pound) for March 17: Comp. daily 1979 201.26 (205.89); 15-day average 207.64 (208.29).

SOYABEAN MEAL

After a firmer opening good commercial selling was met with speculative buying. Interest was shown in August calls at £3.00 and selling against these options depressed values 50p. Further declines were registered on a weaker dollar and Chicago market, reports Muirpace.

	Yesterday close £ per tonne	+ or —	Business Done
Apr.	138.0-141.5	—0.50	—
June	133.0-135.2	—1.05	134.5
August	130.4-130.6	—0.30	131.5-130.5
October	131.0-131.5	—0.75	132.5-131.5
Dec.	132.0-134.5	—0.50	—
Feb.	133.5-136.8	—0.25	—
Apr.	134.0-138.5	—0.25	—

Sales: 886 (67) lots of 20 tonnes.

GRAINS

Old crops eased on early merchant selling, rallied, then eased again on a good shipper-to-shipper trade, with speculative selling on July wheat. New crops found shipper support on wheat and merchant hedge selling on barley, reports T. G. Roddick.

Mnth	WHEAT Yesterd'ys close	+ or —	BARLEY Yesterd'ys close	+ or —
Mar.	115.40	—	114.35	—0.20
May	117.90	—0.10	110.65	—0.50
July	118.80	—0.30	—	—
Sept.	99.35	+0.10	97.85	—0.05
Nov.	102.35	+0.10	101.30	—0.05
Jan.	105.85	+0.10	104.80	—0.05

Business done—Wheat: March 115.40-5.30, May 118.05-7.85, July 118.10-8.75, Sept 99.30-9.15, Nov 102.25-2.15, Jan 105.75-5.65. Sales: 253 lots of 100 tonnes. Barley: March 114.75-4.35, May 116.90-6.35, Sept 97.80 only, Nov 101.30 only, Jan 104.75 only. Sales: 80 lots of 100 tonnes.

LONDON GRAINS—Wheat: US dark northern spring no 1 16 per cent May 123.00 transhipment east coast. US no 2 soft red winter June 95.25, July 94.75. EC second-half April 142. English feed fob Mar 117.50-118.00, April 119.00-118.50 buyers/sellers, April/June 121.00 sellers, Oct 104.00-105.00, Oct/Dec 105.75-106.50 buyers/sellers. Maize: US no 3 yellow/French transhipment east coast first-half April 141.50. Barley: English feed fob Mar 118.00, April/June 120.00 sellers, Aug 89.00, July/Aug 98.25 value.

HGCA—Locational ex-farm spot prices. Feed barley: S. East 112.70, W. Midlands 111.10, N. West 111.10. The UK monetary coefficient for the week beginning Monday, March 24 (based on HGCA calculations using five days' exchange rates) is expected to change to 1.103.

SUGAR

Rumours of new buying by the USSR lifted prices to recent highs, reports C. Czarnikow.

LONDON DAILY PRICE—Raw sugar $174.00 (£119.00), up $1.00 (up 50p) a tonne for March-May delivery. White sugar $200.00, up $2.00.

POTATOES

The market was quiet and directionless, with the widening of the April/May spread the only feature, reports Coley and Harper.

FREIGHT FUTURES

Long liquidation and fresh hedging on dry cargo market gave rise to the best traded volume this year. The tanker market remained quiet and more

US MARKETS

PRECIOUS METALS came under pressure from scattered trade selling and profit-taking, reports Heinold Commodities. Copper traded lower on a slackening in physical inquiry. Aluminium continued to be bolstered from the drawdown in inventories. Sugar attracted commission house buying on good cash interest. Cocoa gained ground on arbitrage buying and light producer offerings. Coffee remained steady to sharply higher on the emergence of roaster interest and short-covering ahead of the prospective plantings report. Oil futures were supported on optimism over the Opec meeting and expectations of product stock drawdowns in the weekly trade stocks report.

NEW YORK

CHICAGO

OIL

Brent and WTI edged higher as Opec continued to talk. Nymex fluctuated by over $1 as Opec rumours circulated and at 1.30 pm EST moved up. In the petroleum products market most oil prices also rose steadily in anticipation of a possible Opec settlement but other products were quiet.—Petroleum Argus, London.

SPOT PRICES

GAS OIL FUTURES

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling up from early lows

Sterling recovered from a shaky start in currency markets yesterday to finish at its best level of the day. A firmer trend in oil prices helped the pound while earlier rumours of an Opec agreement on limitation of oil production helped sentiment. The pound's exchange rate index opened at 73.8 down from 74.0 last night but recovered to finish at 74.3. Early budget details were also seen favourably with hopes of lower inflation and a healthy trade surplus.

With uncertainty caused by the current Opec meeting and the UK budget, many people were content to sit on the sidelines. The prospect of an early reduction in clearing bank base rates did not appear to have any effect since domestic interest rates already discount some sort of reduction. The pound finished at its best level of the day against the dollar at $1.4770-1.4780, a rise of 1.25 cents. It was also higher against the D-mark at DM3.3225 from DM 3.2925 and SFr 2.7825 from SFr 2.7600. Against the French franc it rose to FFr 10.2175 from FFr 10.1175 and Y258.5 from Y257.25.

The dollar was confined to a fairly narrow range as the market awaited some outcome of the Opec meeting. US housing starts showed a smaller than expected fall and this gave the dollar a brief fillip but there was an absence of follow through buying and the US unit failed to break out of its recent trading range.

It closed at a record closing low against the yen at Y175.00 down from Y175.65, having touched Y174.75 during the day. Against the D-mark it was barely changed at DM 2.2490 from DM 2.2475 and SFr 1.8835 compared with SFr 1.8840. Against the French franc it rose to FFr 6.9150 from FFr 6.9065. On Bank of England figures, the dollar's exchange rate index was unchanged at 116.7.

D-MARK — Trading range against the dollar in 1985-86 is 3.4510 to 2.1890. February average 2.3310. Exchange rate index 134.2 against 124.9 six months ago.

The D-mark was slightly weaker against the dollar in Frankfurt yesterday in rather quiet trading. The dollar closed at DM 2.2480 up from DM 2.2460 on Monday. Earlier in the day it had been fixed at DM 2.2461 from DM 2.2468 and there was no intervention by the Bundesbank. There was some buying interest after the start of trading in New York but this was not sustained. For most of the day the dollar lacked direction with the current Opec meeting creating a good deal of uncertainty.

JAPANESE YEN — Trading range against the dollar in 1985-86 is 263.15 to 175.00. February average 184.545. Exchange rate index 196.1 against 157.0 six months ago.

The yen continued to improve against the dollar in Tokyo yesterday. The US unit closed at Y174.90 down from Y175.00 in New York, having touched a record trading low Y174.60. However trading was a little nervous as the dollar was now moving into unknown territory and there was some concern that the Bank of Japan may attempt to act independently from other G5 nations in order to slow the yen's rise.

£ IN NEW YORK

(Latest)

Close	Mar. 18	Prev. close
£ Spot	$1.4760-1.4780	$1.4620-1.4630
1 month	0.55-0.53pm	0.58-0.57pm
3 months	1.50-1.47pm	1.50-1.49pm
12 months	4.55-4.45pm	4.52-4.45pm

Forward premiums and discounts apply to the US dollar.

POUND SPOT—FORWARD AGAINST POUND

March 18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4620-1.4785	1.4770-1.4780	0.55-0.53c pm	4.39	1.48-1.44pm	3.95
Canada	2.0380-2.0580	2.0480-2.0520	0.04cpm-0.06dis	[illegible]	[illegible]	1.08
Nethlnd	3.70-3.75¾	3.74½-3.75½	2¼-1⅞c pm	[illegible]	[illegible]	5.93
Belgium	67.15-68.10	67.85-67.95	10c pm-2dis	[illegible]	[illegible]	1.33
Denmark	12.15-12.31	12.26½-12.27½	4½-3½ore pm	[illegible]	[illegible]	3.85
Ireland	1.0840-1.1015	1.0965-1.0976	0.30-0.45c dis	[illegible]	[illegible]	−2.19
W. Ger	3.27¾-3.33	3.31½-3.32½	2½-1⅞pf pm	[illegible]	[illegible]	7.00
Portugal	214.62-218.45	210.76-218.45	175-475c dis	[illegible]	[illegible]	−15.87
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc [illegible]. Six-month forward dollar 2.63-2.58c pm, 12-month 4.49-4.35c pm.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

March 18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4620-1.4785	1.4770-1.4780	0.55-0.53c pm	4.39	1.48-1.44pm	3.95
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nethlnd	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Ger	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 46.70-46.80.

EXCHANGE CROSS RATES

Mar. 18	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.478	3.323	258.5	10.22	2.783	3.750	2256.	2.050	67.90
$	0.677	1.	2.249	175.0	6.916	1.884	2.538	1527.	1.387	45.95
DM	0.301	0.445	1.	77.80	3.075	0.837	1.129	678.9	0.617	20.44
YEN	3.868	5.715	12.85	1000.	39.53	10.76	14.51	8733.	7.930	262.7
F Fr.	0.979	1.446	0.252	253.0	10.	2.723	3.670	2209.	2.006	66.60
S Fr.	0.359	0.531	1.194	92.90	0.672	1.	1.348	811.5	0.737	24.40
H Fl.	0.267	0.394	0.886	68.93	2.725	0.742	1.	602.0	0.547	18.11
Lira	0.443	0.655	1.473	114.6	4.530	1.232	1.661	1000.	0.908	30.09
C $	0.488	0.721	1.621	126.1	4.985	1.357	1.829	1101.	1.	33.12
B Fr.	1.473	2.176	4.893	380.7	15.06	4.096	5.523	3322.	3.019	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

EURO-CURRENCY INTEREST RATES

Mar. 17	Short term	7 Days notice	1 Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lire	14-10	10-18	[illegible]	[illegible]	[illegible]	[illegible]
B.Fr.(Fin)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B.Fr.(Con)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $ (Sing)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long-term Eurodollars: two years 7¾-7⅞ per cent; three years 7¾-8 per cent; four years 8-8¼ per cent; five years 8⅛-8¼ per cent nominal. Short-term rates are call for US dollars and Japanese yen; others two days' notice.

CURRENCY MOVEMENTS

Mar. 18	Bank of England Index	Morgan Guaranty Change %
Sterling	74.3	N/A
U.S. dollar	110.7	N/A
Canadian dollar	78.0	N/A
Austrian schilling	195.7	N/A
Belgian franc	94.4	N/A
Danish Kroner	85.5	N/A
Deutsche mark	134.8	N/A
Swiss franc	165.7	N/A
Guilder	123.7	N/A
French franc	71.5	N/A
Lira	46.4	N/A
Yen	196.1	N/A

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

CURRENCY RATES

March 18	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.786321	0.654980
U.S. $	7	1.16929	0.960995
Canadian $	10.08	[illegible]	1.33721
Austria Sch	4	18.2500	15.1547
Belgian Fr	9½	53.1975	44.2076
Danish Kr	7	9.60107	7.98099
D'mark	3½	N/A	2.15983
Guilder	4½	2.91160	2.43754
French Fr	9½	N/A	6.63561
Lira	15½	1767.80	1468.35
Yen	4	202.812	169.385
Norway Kr	8	8.20281	6.81868
Span'h Pts	—	163.875	136.328
Swedish Kr	9½	8.01577	6.91276
Swiss Fr	4	2.17636	1.80862
Greek Dr'ch	20½	151.703	134.353
Irish Punt	—	N/A	0.714222

* CS/SDR rate for March 17: 1.60429.

OTHER CURRENCIES

Mar. 18	£	$
Argentina	[illegible]	[illegible]
Australia	[illegible]	[illegible]
Brazil	[illegible]	[illegible]
Finland	[illegible]	[illegible]
Greece	[illegible]	[illegible]
H'kong	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Kuwait	[illegible]	[illegible]
Luxburg	[illegible]	[illegible]
Malaysia	[illegible]	[illegible]
N'Zland	[illegible]	[illegible]
Saudi Ar.	[illegible]	[illegible]
Sin'pore	[illegible]	[illegible]
S.Af. (Cm)	[illegible]	[illegible]
S.Af. (Fn)	[illegible]	[illegible]
U.A.E.	[illegible]	[illegible]

* Selling rate.
† Correction (March 17) Finland—$ rate was 5.0930-5.0950.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu March 18	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.8320	44.2076	−1.39	+1.13	±1.5425
Danish Krone	8.12857	7.98099	−1.82	+0.70	±1.6421
German D-Mark	2.23840	2.15983	−3.62	−1.00	±1.1490
French Franc	6.86402	6.63561	−3.33	−0.81	±1.3654
Dutch Guilder	2.52208	2.43754	−3.35	−0.83	±1.5162
Irish Punt	0.72578	0.714222	−1.59	+0.93	±1.6673
Italian Lira	1520.60	1468.35	−3.37	−1.89	±4.0856

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

STERLING INDEX

	March 18	Previous
8.30 am	73.8	74.1
9.00 am	73.8	73.9
10.00 am	73.9	73.7
11.00 am	73.9	73.6
Noon	73.9	73.6
1.00 pm	74.0	73.7
2.00 pm	74.0	73.7
3.00 pm	74.0	74.1
4.00 pm	74.3	74.0

FINANCIAL FUTURES

PSBR boosts gilts

Long term gilt futures were strong on the UK February PSBR repayment and ahead of yesterday's Budget, but trading on the London International Financial Futures Exchange was a little nervous as the Chancellor prepared to speak. The market finished rather erratically, as dealers took profits, but prices were supported by the strong pound and a partial recovery of US bonds. Volume was relatively low. Dealers suggested the weaker opening to the bond futures market in Chicago, followed earlier selling in London, but gilt futures tended to resist the trend, in spite of some selling by jobbers. June gilts opened unchanged at 119-18, the day's low, and touched a peak of 120-21, before closing at 120-10, reacting favourably to the February PSBR repayment of £0.4bn.

June US Bonds opened weak at 96-06, and fell to a low of 95-06, but dealers described the selling as reluctant, and the contract closed at 95-17, compared with 96-14 previously.

US February housing starts fell 3.5 per cent, but this was less than expected, and bond prices dipped, only to pick up on the downward revision to 9.2 per cent from 15.7 per cent in the rise in January starts, but reaction was generally muted.

June Eurodollar's closed around the middle of the day's narrow range, in quiet trading, while three-month sterling deposits, for June delivery, retreated from a high of 89.41 on profit taking, to close little changed at 89.29.

LIFFE LONG GILT FUTURES OPTIONS

Strike price	Calls—Last June	Sept	Dec	Mar	Puts—Last June	Sept	Dec	Mar
118	5.33	7.18	—	—	1.13	2.39	—	—
110	8.12	8.05	—	—	1.58	3.25	—	—
120	3.04	5.01	—	—	2.48	4.21	—	—
122	2.11	8.04	—	—	3.56	5.24	—	—
124	1.30	3.17	—	—	5.10	0.37	—	—

Estimated volume total, Calls 802, Puts 108
Previous day's open int. Calls 3,425, Puts 372

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike price	Calls—Last June	Sept	Dec	Mar	Puts—Last June	Sept	Dec	Mar
92	4.32	5.31	—	—	0.62	2.39	—	—
94	3.13	0.23	—	—	1.43	3.31	—	—
96	2.10	8.27	—	—	2.00	4.35	—	—
98	1.23	2.40	—	—	3.53	5.48	—	—
100	0.52	1.83	—	—	5.15	—	—	—

Estimated volume total, Calls 5, Puts 0
Previous day's open int. Calls 232, Puts 31

LIFFE £/$ OPTIONS

£25,000 (cents per £1)

Strike price	Calls—Last April	May	June	Sept	Puts—Last April	May	June	Sept
1.20	—	27.10	—	—	—	—	—	—
1.25	22.18	—	22.18	22.18	0.00	—	0.08	0.57
1.30	17.10	17.18	17.10	17.10	0.01	0.16	0.30	1.23
1.35	12.18	12.10	12.15	12.10	0.06	0.57	0.84	2.34
1.40	7.25	7.74	7.78	8.64	0.50	1.54	2.05	4.04
1.45	3.60	4.57	4.78	5.97	1.84	3.37	4.05	8.37
1.50	1.36	2.20	2.68	3.94	4.60	6.10	6.63	9.34

Estimated volume total, Calls 80, Puts 40
Previous day's open int. Calls 4,101, Puts 4,767

PHILADELPHIA SE £/$ OPTIONS

£12,500 (cents per £1)

Strike price	Calls—Last April	May	June	Sept	Puts—Last April	May	June	Sept
1.20	—	—	—	—	—	—	—	—
1.25	—	—	—	—	—	—	—	0.60
1.30	—	—	—	—	—	—	—	—
1.35	—	—	—	—	0.50	—	—	—
1.40	5.70	—	—	0.45	—	—	2.20	4.00
1.45	—	—	0.45	—	1.75	—	0.00	—
1.50	0.05	1.85	2.30	3.65	—	—	—	—

Previous day's open int. Calls 43,024, Puts 37,437
Previous day's volume, Calls 1,072, Puts 951

LIFFE £/$ OPTIONS (LONDON SE)

£12,500 (cents per £1)

Strike price	Calls—Last Mar	April	May	June	Puts—Last Mar	April	May	June
1.20	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
1.25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
1.30	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
1.35	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
1.40	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
1.45	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
1.50	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Previous day's open int. Calls n/a, Puts n/a
Volume, n/a

LIFFE—EURODOLLAR OPTIONS

$1m points of 100%

Strike price	Calls—Last June	Sept	Dec	Mar	Puts—Last June	Sept	Dec	Mar
90.00	2.72	—	—	—	0.00	—	—	—
90.50	2.22	2.15	—	—	0.00	0.01	—	—
91.00	1.72	1.66	—	—	0.00	0.01	—	—
91.50	1.23	1.19	1.12	—	0.01	0.04	0.10	—
92.00	0.75	0.76	0.74	—	0.03	0.11	0.21	—
92.50	0.36	0.41	0.42	—	0.14	0.26	0.39	—
93.00	0.11	0.17	0.20	—	0.39	0.52	0.67	—

Previous day's open int. Calls 2,318, Puts 1,703
Volume, 70

CHICAGO

US TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Latest	High	Low	Prev
March	[illegible]	[illegible]	[illegible]	97-01
June	[illegible]	[illegible]	[illegible]	96-15
Sept	[illegible]	[illegible]	[illegible]	95-29
Dec	[illegible]	[illegible]	[illegible]	95-03
March	[illegible]	[illegible]	[illegible]	94-15
June	[illegible]	[illegible]	[illegible]	93-29
Sept	—	—	—	—
Dec	91-26	91-26	91-25	92-29
March	91-23	—	—	92-10
June	—	—	—	92-02

US TREASURY BILLS (IMM) $1m points of 100%

	Latest	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]

CERT. DEPOSIT (IMM) $1m points of 100%

	Latest	High	Low	Prev
March	—	—	—	[illegible]
June	93.01	93.01	93.01	93.04
Sept	—	—	—	[illegible]
Dec	—	—	—	[illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Latest	High	Low	Prev
June	92.72	92.72	92.67	92.72
Sept	92.63	92.63	92.60	92.74
Dec	92.60	92.50	92.47	92.67
March	92.31	92.31	92.29	92.53
June	92.14	92.14	92.13	92.35
Sept	91.99	91.99	91.98	92.18
Dec	91.84	91.84	91.84	92.02
March	92.30	92.31	92.29	91.87

LONDON

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
March	119-30	119-29	119-01	119-07
June	120-10	120-21	119-18	119-18
Sept	120-22	120-03	120-03	119-26

Estimated volume 4,405 (0,550)
Previous day's open int 6,776 (7,912)
Basis quote (clean cash price of 13¼% Treasury 2004-08 less equivalent price of near futures contract) −4 to 4 (32nds)

10% NOTIONAL SHORT GILT £100,000 64ths of 100%

	Close	High	Low	Prev
March	95-46	—	—	95-09
June	95-63	95-63	95-30	96-27

Estimated volume 176 (424)
Previous day's open int 939 (958)

THREE-MONTH STERLING £500,000 points of 100%

	Close	High	Low	Prev
March	88.31	88.32	88.28	88.34
June	89.29	89.41	89.26	89.36
Sept	89.71	89.98	89.71	89.73
Dec	89.94	90.03	89.94	89.97
March	90.04	90.11	90.04	90.11
June	90.02	90.10	90.02	90.06

Estimated volume 2,189 (1,696)
Previous day's open int 12,286 (12,143)

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev
June	163.90	164.15	161.50	162.55
Sept	166.70	166.75	163.40	164.45
Dec	167.70	—	—	166.45

Estimated volume 587 (573)
Previous day's open int 1,641 (1,607)

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
June	92.72	92.76	92.68	92.79
Sept	92.65	92.68	92.61	92.73
Dec	92.53	92.56	92.50	92.60
March	92.34	92.40	92.39	92.81
June	92.15	—	—	82.23
Sept	91.99	—	—	92.06
Dec	91.82	—	—	91.89

Estimated volume 3,187 (4,050)
Previous day's open int 10,432 (10,112)

US TREASURY BONDS 8% $100,000 32nds of 100%

	Close	High	Low	Prev
June	95-05	96-27	95-21	97-01
Sept	95-17	96-09	95-08	96-14
Dec	94-28	95-05	95-03	95-25

Estimated volume 5,189 (5,304)
Previous day's open int 5,452 (5,443)

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth
1.4775	1.4721	1.4629	1.4515	1.4335

IMM—STERLING Se per £

	Latest	High	Low	Prev
June	1.4565	1.4675	1.4505	1.4495
Sept	1.4460	1.4485	1.4410	1.4385
Dec	1.4350	1.4350	1.4325	1.4275

LIFFE—STERLING £25,000 $ per £

	Close	High	Low	Prev
June	1.4573	1.4520	1.4488	1.4518
Sept	1.4460	1.4410	1.4410	1.4405

Estimated volume 21 (114)
Previous day's open int 1,771 (3,314)

MONEY MARKETS

Bank declines to hint on rates

The London money market continued to anticipate a cut in clearing bank base rates yesterday, but received no encouragement from the Bank of England, ahead of the Chancellor's Budget statement. Three-month interbank was unchanged at 11⅞-11¾ per cent, pointing towards a reduction of at least ½ per cent in base rates. The discount houses were very reluctant to sell bills to the authorities at present dealing rates, and the authorities could find virtually no paper to relieve yesterday's credit shortage. Almost all the day's help was provided through late assistance, but still appeared to supply only half the amount required. Overnight interbank rose to 16 per cent in late trading.

The Bank of England initially forecast a money market shortage of £250m, but changed this to £300m in the afternoon. Total help amounted to only £150m.

The Bank of England did not operate in the market during the morning, and in the afternoon bought a mere £5m bills outright, by way of £1m bank bills in band 1 at 12⅜ per cent; and £4m bank bills in band 2 at 12⁷⁄₁₆ per cent.

Late assistance of around £145m was then provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £596m, with bank balances absorbing £15m. These outweighed Exchequer transactions adding £320m to liquidity, and a fall in the note circulation of £50m.

In Frankfurt call money eased to 4.65 per cent from 4.70 per cent, ahead of the Bundesbank's tender for a 35-day securities repurchase agreement. Bids totalling DM 9.4bn were accepted, at the minimum level of 4.30 per cent. Banks bid for a total of DM 13.9bn in liquidity, and successful applicants will be credited with the funds today. The allocation by the German central bank was regarded as generous, with dealers expecting around DM 8bn in new money, while DM 6.6bn will flow out of the market today as an earlier agreement expires. Credit conditions are expected to remain tight, with banks slightly below the required daily average of DM 50bn in minimum reserve holdings, during the first 15 days of March. Seasonal tax payments, the end falling during the Easter holiday, and demand for cash over the holiday period, are likely to keep liquidity tight until the beginning of April.

UK clearing banks base lending rate 12½ per cent since January 9

FT LONDON INTERBANK FIXING

(11.00 a.m. March 18) Three months US dollars		Six months US dollars	
bid 7 5/8	offer 7 1/2	bid 7 5/8	offer 7 1/2

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

NEW YORK RATES

(Lunchtime)

Prime rate	9
Broker loan rate	8¾-8½
Fed funds	7⅞

Treasury Bills & Bonds

Fed funds at intervention	—
One month	6.48
Two month	6.67
Three month	0.74
Six month	0.91
One year	7.01
Two year	7.25
Three year	7.31
Four year	7.41
Five year	7.50
Seven year	7.76
10 year	7.85
30 year	8.03

LONDON MONEY RATES

Mar. 18	Over night	7 days notice	Month	Three Months	Six Months	One Year
Interbank	18¾-16	12⅛-18⅛	11½-12⅛	11⅝-11¾	11⅛-11⅛	10⅞-11
Sterling CDs	—	—	11⅛-12⅛	11⅝-11⅝	11-11⅛	10⅝-10¾
Local Authority Depos	12¾-13	12-12¼	11⅞	11⅝	11⅛	10⅞
Local Author'y Bonds	—	—	12¼	11⅞	11⅜	11⅛
Discount Mkt Depos.	12¾-13	18⅛	11¾	11¼	—	—
Company Depos.	13-13⅛	12½-18¾	12⅜	11⅞	—	—
Finance House Depos	—	—	12¼	12	11⅞	11¼
Treasury Bills (Buy)	—	—	11⅞	11⅝	—	—
Bank Bills (Buy)	—	—	11⅜	11⅜	10¾	—
Fine Trade Bills (Buy)	—	—	12⅛	19	11⅛	—
Dollar CDs	—	—	7.30-7.30	7.25-7.30	7.20-7.30	7.3-7.36
SDR Linked Depos.	—	—	7⅛-7⅞	7⅛-7⅞	7⅛-7⅞	7⅛-7⅞
ECU Depos.	—	—	9⅛-9⅛	9⅛-9⅛	8⅛-8⅛	8⅛-8⅛

Treasury Bills (sell): one-month 11⅛ per cent; three-months 11¼ per cent. Bank Bills (sell): one-month 11⅝ per cent; three-months 11¼ per cent. Treasury Bills: Average tender rate of discount 11.1596 per cent. ECGD Fixed Finance Scheme IV reference date February 5 to March 4 (inclusive): 12.654 per cent. Local authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rates 13 per cent from March 1 1986. Bank Deposit Rate for sums at seven days' notice 6-6¼ per cent. Certificates of Tax Deposits (Series 6): Deposits £100,000 and over held under one month 12⅝ per cent; one-three months 11¼ per cent; three-six months 11⅛ per cent; six-nine months 11 per cent; nine-12 months 11 per cent. Under £100,000 11 per cent from March 12. Deposits held under Series 5 11 per cent. Deposits withdrawn for cash 7 per cent.

MONEY RATES

March 18	Ov'r-nig't	One Month	Two Months	Three Months	Six Months	Lombard Int'v'tin
Frankfurt	4.6-4.7	4.50-4.65	4.40-4.55	4.40-4.55	4.05-4.60	0.6
Paris	8⅞	8¼-8⅜	8¼-8⅜	8⅛-8⅞	8⅛-8⅞	8¼
Zurich	7⅛-11⅛	4-4⅛	—	0⅞-4	—	—
Amsterdam	05⅛-5¼	0⅞-5⅛	—	0⅞-0⅛	—	—
Tokyo	6.81870	0.65625	—	5.40625	—	—
Milan	17⅛-18	15⅞-17¼	—	10¼-10⅛	—	—
Brussels	10.95	8¾-9⅞	—	9⅛-9¼	—	—
Dublin	14⅛-14⅛	14⅞-15⅛	14⅛-15⅛	14-14¼	11½-12	—

LONDON SHARE SERVICE

BRITISH FUNDS

1985/86 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
99 11/16	96¾	Treas. 10pcCnv 1986	99 13/16xd	...	10.02	12.64
98 13/32	92¼	Treas 3pc 1986	98 17/32	+1/32	3.05	12.35
100	97½	Exch 10½pc 1986	99 21/32	...	10.54	12.53
101⅞	99¼	Treas 12pc 1986	99 13/16	...	12.02	12.55
99¾	94¼	Treas 8½pc 1984-86‡‡	99¾	...	8.56	10.94
105 3/32	100½	Exch. 14pc 1986	101 11/16	+1/16	13.77	10.98
95 13/32	87¾	Exch. 2½pc 1986	95⅝	...	2.61	9.28
104 3/16	100¼	Exch. 13¼pc 1987	102 3/16	+1/16	12.98	10.56
99 11/16	96⅝	Treas 10¼pcCv '87	99¾	+⅛	10.28	10.50
94¼	85½	Exch 2½pc 1987	94½	+⅛	2.65	8.73
100 1/16	96¼	Exch. 10½pc 1987	100¼xd	+¼	10.49	10.40
96 7/16	89	Funding 6½pc '85-87‡‡	96½	+¼	6.76	10.25
99 7/16	95½	Treas. 10pc 1987	99½	+1/16	10.06	10.51
93 7/16	84¼	Treas 3pc 1987	93½	...	3.22	8.61
102 ¼	99¼	Treas. 12pc 1987	102 1/16	+⅛	11.76	10.55
96 1/16	90¼	Treas 7¾pc 1985-88‡‡	96	+¼	8.07	10.14
100 1/16	95⅛	Exch 10½pc '88	100¼	+1/16	10.47	10.36
98 13/16	93⅛	Treas 9¾pc Cv '88	98 13/16	+¼	9.87	10.33
89¼	80	Transport 3pc '78-88	89¼	+⅛	3.36	8.25
98 1/16	91½	Treas. 9½pc '88	98 1/16	+1/16	9.69	10.35
103⅜	97½	Treas 11½pc 1989	103⅜	+⅛	11.12	10.13
98 13/16	90¼	Treas 9½pc Cnv. '89	98 13/16xd	+1/16	9.61	10.00
85⅜	79	Treas 3pc 1989	85⅜	+¼	3.50	8.21
100 13/16	94	Treas 10½pc 1989	100⅞	+⅛	10.41	10.15
99⅝	92	Exch 10pc 1989	99½	+⅛	10.05	10.18
102⅝	95	Exch 11pc 1989	102½xd	+⅛	10.73	10.13
88⅛	79	Treas 5pc 1986-89	88¼xd	+¼	5.67	0.92
104 3/16	95	Exch 10¼pcCv '89	103⅞	+1/16	9.87	8.96
109¾	103⅛	Treas 13pc 1990‡‡	109¾	+⅛	11.85	9.87
103⅝	96 11/16	Exch 11pc 1990‡‡	103⅝	+⅛	10.62	9.84
108¾	100¼	Exch. 12½pc 1990	108⅝xd	+½	11.51	9.85
[illegible]	[illegible]	Treas. 3pc 1990	82	+¼	3.66	8.22

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont.

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

هكذا من الأصل

INDUSTRIALS—Continued

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

INSURANCES

LEISURE

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

High	Low	Stock	Price	+ or −	Div Net	Cvr	Y'ld Gr's
120	48	♥Colby Res Corp.	50	.....	—	—	—
550	175	Cons. Murch. 10c	225	...	Q80½c	3.9	‡
40	14	‡Emex Int. Ir10p	34	+1	—	—	—
123	70	Greenwich Res	92	−3	—	—	—
215	115	Hampton Areas 10p	120	...	3.75	0.9	4.2
260	135	♥Highwood Res	240	+5	—	—	—
£22½	£15¼	Homestake Mining $1	£17¾	+⅛	Q20c	—	0.8
310	155	♥McFinley Red Lake	390	...	—	—	—
335	195	♥Musto Explorations	265	+15	—	—	—
55	23	♥New Sabina Res C$1	42	.....	—	—	—
375	195	Northgate C$1	227	....	—	—	—
685	507	RTZ	662	+18	†20.0	2.8	4.3
£145½	£114½	Do. 9½pcLn '95-2000	£141	−3½	Q9½%	14.0	6.8
980	630	♥Tara Exptn $1	925	.....	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed, dealings permitted under Rule 535(4)(a).
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- 11 Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ● Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- ♦ Forecast dividend, cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ♠ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¶ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	105	+1	Fin. 13% 97/02	£118¾	.....
Craig & Rose £1	£14	.....	Arnotts	320	.....
Finlay Pkg 5p	47	.....	CPI Hldgs	57	..
Holt (Jos) 25p	745	..	Carrol Inds.	172	+1
IoM Stm. £1	75	.....	Dublin Gas	56	.
			Hall (R. & H.)	72	−5
IRISH			Heiton Hldgs.	31	..
Fund 11¼% 1988	£100	...	Irish Ropes	55	..
Nat. 9¾% 84/89	£97¾	.	Unidare	160xd	+10

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(International Edition Page 46)

LONDON STOCK EXCHANGE

MARKET REPORT

Account Dealing Dates

Option

*First Dealings	Declarations	Last Dealings	Account Day
Mar 10	Mar 26	Mar 27	Apr 7
Apr 1	Apr 10	Apr 11	Apr 21
Apr 14	Apr 24	Apr 25	May 6

* "New-time" dealings may take place from 9.30 am two business days earlier.

Budget proposals fuel strong late surge in equity leaders

The immediate reaction to the Chancellor's Budget proposals was one of delight in London stock markets. Leading shares aggressively extended an earlier advance with the emphasis on likely beneficiaries of his decision not to increase excise duties on beer and spirits or implement special windfall tax impositions. The major clearing Banks along with the Brewery leaders made exceptional headway. Many Stores also went sharply higher, before easing from the best, and the overall late buoyant scene was reflected in the FT-SE 100 share index. It closed 21.8 up at a record 1,644.4.

Gilt-edged trading ceased at 3.30 pm but the market is confidently expected to open higher this morning. Ahead of the Budget, fresh overseas and domestic buying ensured a firm tone which was reinforced at 2.30 pm by the announcement of a highly favourable PSBR figure: during February there was a net £0.4bn repayment. Shortly before the official close the authorities were bid for supplies of the partly-paid long tap, Conversion 9 per cent 2000 "A." The Government Broker sold stock at 20⅜ and then withdrew the price.

Longer-dated stocks finally settled around ¾ up while shorter maturities managed gains ranging to ½. Index-linked issues, however, weakened on the prospect of lower UK inflation, which the Chancellor confirmed in his Budget speech. Sterling improved late despite expectations that bank base rate lending rates would be reduced later this week.

Earlier in the session blue chip industrials had given another demonstration of their underlying strength. Most opened lower following Wall Street's marked reaction overnight but recovered to stand marginally better before mid-session. Selective demand for many leading issues, some of which remained in short supply, fuelled the upturn. Prior to the Chancellor's measures, the FT Ordinary share index had regained an early loss of 9.6 and was around 5 points up; it ended a net 16.9 higher at 1,374.6.

Clearers soar

Already up to 12 higher at the "house" close in further response to recent bullish notices from stockbrokers Rowe and Pitman and Wood Mackenzie, clearing banks advanced strongly after-hours. Investors, relieved that the sector had escaped from any financial services or "windfall" taxation measures, chased quotations higher still and found stock in short supply. NatWest, which jumped 89 last week, featured with a fresh leap of 39 to a new peak of 855p, while Barclays gained 32 at 545p. Lloyds ended 27 better at 610p and Midland touched 505p before closing 18 to the good at 500p. Elsewhere, Union Discount rose 13 to 703p ahead of today's annual general meeting, while Clive edged forward a penny to 48p following news of the cash bid of 50p per share from Prudential Bache, the US securities house.

Life Insurances became unsettled after-hours' following the Chancellor's planned creation of a major new scheme to encourage investment in UK equities. Abbey Life ended 9 down at 207p and Equity and Law were 10 off at 278p, while Legal and General reacted 17 to 812p and Prudential lost 18 at 892p. Britannic gave up 11 at 897p, as did London and Manchester, at 879p.

Wellcome, a firm market recently reflecting encouraging reports about its research into the treatment of AIDS, dipped to 220p initially before renewed demand left the close 3 dearer on balance at 233p.

The drinks sector responded to the surprise absence of excise duty increases with marked enthusiasm. Leading Breweries, having traded in nervous fashion recently, were immediately marked up to 30 higher as brokers quickly upgraded profits forecasts. Bass advanced 35 to 755p, after 760p, while Allied-Lyons touched 316p before settling 15 higher on balance at 312p. Grand Metropolitan, 386p, and Whitbread "A," 282p, rose 16 and 17 respectively, while Guinness finished 12 higher at 290p. Regionals were also wanted with Wolverhampton and Dudley, 12 up at 490p, and Greene King, 9 to the good at 226p.

A modest mark-down at the outset encouraged fresh demand for leading Buildings and quotations finished on a distinctly firm note. Tarmac led the advance, rising 20 to 452p, while Blue Circle gained 13 more to 661p. Redland closed 6 higher at 426p and BPB Industries 5 dearer at 453p. Timber issues attracted good support under the lead of Magnet and Southerns, 8 higher at 162p. Meyer International moved up late to close 7 to the good at 246p. Selected housebuilding issues improved on hopes of lower mortgage rates. Bellway gained 5 at 176p, and Bryant 4 to 111p. USM-quoted Access Satellite encountered nervous selling and closed 15 lower at 65p, but Thomson T-Line Caravans rose 10 to 188p; the latter's shares are due to be quoted ex rights today.

ICI slipped to 984p on Wall Street influences before picking up to close unchanged at 992p. Other Chemicals were narrowly mixed. Laporte, down to 400p initially, attracted late support to close a couple of pence dearer on balance at 405p. Anchor settled 3 cheaper at 232p, after 225p, but Hickson International firmed 4 afresh to 422p; the latter's annual results are due next Monday.

Stores buoyant

Leading Retailers, already a few pence to the good, responded to the prospect of increased consumer spending as a result of the Chancellor's proposals. Quotations finished slightly below best levels in most cases, but gains still extended well into double-figures. Marks and Spencer were particularly good at 212p—a net advance of 14, while other noteworthy improvements included Burton, 15 up at 317p, after 320p, and Storehouse, 17 better at 345p. Combined English Stores, scheduled to reveal preliminary results next Tuesday, closed 7 higher at 198p. Woolworth put on 7 to 610p, despite a statement from rumoured suitor Dee Corporation, 5 up at 275p, that recent Press speculation was "totally without substance." Secondary counters were generally overshadowed although Superdrug, annual results due tomorrow, hardened 8 more to 488p. Martin Ford, down to 110p earlier, staged a smart rally to 114p, a net decline of 3, as bid hopes resurfaced.

Electrical majors improved late to close at, or very near, best levels of the day. British Telecom finished 5 dearer at 222p and Plessey 6 higher at 228p, while BICC edged forward a few pence to 332p and GEC hardened 2 to 204p. Thorn EMI moved against the trend and lost 7 at 472p. Elsewhere, UEI reflected revived speculative support with a rise of 12 at 274p and Brown Boveri Kent moved up 2 to 105p, after 107p, on buying ahead of the forthcoming results. Electronic Rentals added 2 at 58p on an investment recommendation and Smaleigh attracted further speculative support on asset injection hopes and closed a penny up at 34½p, after 25p. Mnemos, however, lost 4 more to 36p after further consideration of the third-quarter deficit.

Interest in the Engineering sector fell away to a relatively low level. Among the occasional outstanding movements, BM responded to the good annual results with a rise of 15 at 175p. Davies and Metcalfe "A," in contrast, reacted 13 to 85p on further consideration of the preliminary statement. Still reflecting Press mention, Hall Engineering firmed 8 further to 186p. John Brown came to life at 24p, up 3, while S. W. Wood were also noteworthy in smaller priced issues and closed 4 up at 31p.

Attention in Foods again centred on S. & W. Berisford. Up 24 late on Monday following Ferruzzi of Italy's acquisition of a 9 per cent stake at 225p per share, Berisford were actively traded amid rumours that Tate and Lyle was seeking to lift its holding and the close was a penny dearer on balance at 226p, after 228p. Hillsdown Holdings, which yesterday revealed that it had increased its stake in Berisford to 10.39 per cent, gained 3 to 248p, while Ranks Hovis McDougall, where Berisford holds nearly 15 per cent of the equity, spurted 8 to 215p. Food Retailers, a shade easier at first, picked up late in the day to close a few pence better in places. Tesco finished 3 dearer at 333p and ASDA-MFI a couple of pence better on balance at 148p.

Trusthouse Forte, the subject of US bid rumours in recent days, opened a couple of pence cheaper at 192p, but moved forward on the reappearance of buyers to close 2 firmer on balance at 196p.

Boots higher

Leading miscellaneous industrials, inclined easier initially, rallied on the appearance of buyers. Boots, reflecting a particularly good performance by the Store sector, featured again with a fresh rise of 8 at 279p. Beecham, down to 340p at one stage settled 7 dearer on balance at 355p, while Hanson Trust ended a penny firmer at 180p, after 177p, and Trafalgar House finished a couple of pence higher at 331p, after 324p. Elsewhere, comment on the interim results prompted profit-taking in Prestwich Holdings which fell 10 to 144p, after 138p. Associated British Ports continued to make progress at 530p, up 7, while Expamet, reflecting satisfactory preliminary results, firmed 3 to 168p. Fobel, still benefiting from proposed public issue of its Canadian associate company, Premium Forest Products, advanced afresh to 65p before closing 7 higher on the day at 63p. Thomas Jourdan met with profit-taking following comment on the preliminary figures and gave up 6 to 186p, while recent bid favourite, William Baird moved 30 more to 530p.

Automotive Products, the subject of a successful bid from BBA, rose 4 to 228p following the sharply increased preliminary profits. Other Motor Components, however, gave modest ground where altered. AE encountered profit-taking and dipped 6 to 176p despite news of a sizeable contract to supply pistons to Opel. Armstrong Equipment eased a couple of pence to 122p ahead of today's half-timer.

Among Paper/Printings, St Ives spurted 95 to 785p in belated response to the acquisitions of Chase Web Offset and EMAP's magazine printing operations for a combined consideration of £23.5m.

Leading Properties continued to trade quietly. Land Securities softened a couple of pence to 315p on lack of interest, while MEPC closed 5 lower at 345p. Among secondary issues, a burst of speculative buying lifted Edmond Holdings to 18p before the close of 17p, up 2½ on the day.

Courtaulds continued firmly among Textiles, rising 3 more to 289p. Dawson International closed 4 dearer at 254p, after 256p, following news of the legal action being taken against Coats Patons, 5 up at 294p. Successful bidder for CP, Vantona Viyella, ended 10 higher at 502p. Youghal revived with a speculative rise of 2½ at 8½.

Bats advanced to 408p at one stage in response to renewed US support before reacting on the Chancellor's Budget measures to finish a net 10 dearer on balance at 403p.

Exco International were particularly volatile and dipped to 213p before settling only 1 cheaper on balance at 225p following the £30m provision against Far-Eastern losses.

Oils gain ground

Hopes that the current Opec meeting in Geneva could result in an agreement to limit oil production gave a boost to crude prices and leading oil shares. The latter made good progress during the morning and early afternoon, but eased back a shade ahead of the budget. News of increased taxation on petrol had little immediate impact on sentiment and the leaders edged forward a few pence further to record strong gains on the session. BP and Shell closed 17 higher apiece at 565p and 760p respectively.

Overseas Traders provided a rare dull feature in Paterson Zochonis which encountered occasional profit-taking after the interim results and closed 10 cheaper at 250p.

A generally subdued South African mining sector was featured by renewed strength in De Beers which raced up 15 more to 495p following sustained Johannesburg and Continental support.

Golds, on the other hand, were unsettled by the rise in sterling against the dollar, the easier trend in the bullion price and Monday's neutral South African budget. Little in the way of selling pressure was reported but general lack of interest saw prices drift easier throughout the session. The Gold Mines index eased 0.9 to 317.4 while the bullion price gave up $2.25 to $350.5.

Apart from De Beers the Financials provided firm features in the UK-registered Rio Tinto-Zinc, which, boosted by press suggestions of a possible bid, jumped 18 more to 662p for a two-day rise of 32. Consolidated Gold Fields, rose 16 to 483p.

Another advance to record levels by overnight Sydney and Melbourne markets encompassed the leading mining issues which have been left behind in the recent upsurge. In Golds Central Norseman advanced 25 to 403p. Among the more speculative stocks Westmax, suspended at 50p on February 3, were re-listed at 105p following news that Goward Investments has taken a 30 per cent stake in the company; the shares touched the equivalent of 135p at one point during dealings in Australia overnight.

Elsewhere, South Africa's Free State Development and Investment Corporation surged 50 to a year's high of 240p following news that the company is engaged in talks with another company, the outcome of which could have an impact on the shares.

FINANCIAL TIMES STOCK INDICES

	Mar. 18	Mar. 17	Mar. 14	Mar. 13	Mar. 12	Mar. 11	year ago
Government Secs	86.99	86.53	86.57	86.43	86.28	86.92	80.45
Fixed Interest	93.06	92.23	92.90	92.97	95.21	92.62	84.21
Ordinary ♥	1374.6	1357.7	1360.7	1350.5	1360.7	1328.8	997.6
Gold Mines	317.4	318.3	319.7	331.0	322.2	332.5	507.0
Ord. Div. Yield	3.95	3.99	3.98	4.03	4.03	4.05	4.56
Earnings, Yld. % (full)	9.40	9.50	9.50	9.58	9.58	9.76	11.26
P/E Ratio (net)	13.20	13.07	13.07	12.95	12.96	12.70	10.81
Total bargains (Est.)	41,093	38,553	34,118	46,772	55,686	40,694	25,271
Equity turnover £m.	—	763.10	930.12	1157.35	986.46	745.91	534.99
Equity bargains	—	40,196	40,332	43,098	43,117	38,351	22,593
Shares traded (ml)	—	303.3	382.1	428.1	458.4	345.6	196.8

♥ 10 am 1348.3, 11 am 1355.0, Noon 1358.8, 1 pm 1361.4, 2 pm 1363.3, 3 pm 1362.8, 4 pm 1364.3. Day's High 1374.6. Day's Low 1348.1. Basis 100 Government Securities 15/10/26. Fixed Interest 1928. Ordinary 1/7/35. Gold Mines 12/9/55. SE Activity 1974. Latest Index 01-246 8026. *Nil=12.69. † Corrected.

HIGHS AND LOWS / S.E. ACTIVITY

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Tues Mar 18 1986

FIXED INTEREST

YESTERDAY'S ACTIVE STOCKS

MONDAY'S ACTIVE STOCKS

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS: 38,215

A=Ask B=Bid C=Call P=Put

RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. g Assumed dividend and yield. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1986. K Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. t Indicated dividends: cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." §§ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ‖‖ Allotment price. ✠ Unlisted securities market. ‡‡ Dealt in under Rule 535 (3). ♥ Dealt in under Rule 535 (4) (e). †† Units comprising two ordinary, one preference and one warrant.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	96	12	6
Corpns. Dom. & Foreign Bonds	17	10	47
Industrials	268	360	878
Financial & Props.	53	139	339
Oils	20	25	76
Plantations	3	2	10
Mines	44	27	110
Others	41	91	58
Totals	681	657	1,624

TRADITIONAL OPTIONS

First Dealings	Last Dealings	Last Declaration	For Settlement
Mar 17	Apr 4	June 26	July 7
Apr 7	Apr 18	July 10	July 21
Apr 21	May 2	July 24	Aug 4

For rate indications see end of Unit Trust Service

Call options were taken out in Wellcome, Rosehaugh, Phicom, Hall Engineering, Norfolk Capital, Sunleigh Electronics, Tricentrol, Barratt Developments, Templeton Galbraith, Blacks Leisure, Argyle Trust, Trusthouse Forte, Premier Oil, Arthur Lee, Northern Engineering Industries, Fobel, Laura Ashley, STC, Johnson and Firth Brown, Palma, John Brown, Energy Capital, Petranol, Mnemos, Chloride, Polly Peck, Sound Diffusion, Ranks Hovis McDougall and Whim Creek. A put was done in Peters Stores, but no doubles were reported.

NEW HIGHS AND LOWS FOR 1985/6

NEW HIGHS (190)

BRITISH FUNDS (34), INT. BANK & OVERSEAS GOVT. STLG. ISSUES (1), LOANS (4), AMERICANS (5), CANADIANS (1), BANKS (8), BREWERS (4), BUILDINGS (26), CHEMICALS (1), STORES (6), ELECTRICALS (9), ENGINEERING (12), FOODS (5), HOTELS (1), INDUSTRIALS (23), INSURANCE (3), LEISURE (1), MOTORS (2), NEWSPAPERS (3), PAPER (3), PROPERTY (12), TEXTILES (2), TOBACCOS (2), TRUSTS (22), MINES (2).

NEW LOWS (17)

AMERICANS (1) Cullinet Software. BUILDINGS (1) Access Satellite. FOODS (2) Avana, Sutherland (E. T.) TRUSTS (1) Flextech. OILS (7) Aran Energy, Bryson Oil & Gas, Firstland Oil, New Court Nat. Res., Pict Pet., Tricentrol 11pc Cnv. Ln. 1995-2005, Ultramar. PLANTATIONS (2) Harrisons Malaysian Plant, Rowe Evans. MINES (3) Ayer Hitam, Petaling Tin, Tanjong Tin.

LONDON TRADED OPTIONS

March 18 Total contracts 18,503 Calls 14,511 Puts 3,992 *Underlying security price.

WORLD STOCK MARKETS

AUSTRIA | GERMANY | NORWAY | AUSTRALIA (continued) | JAPAN (continued)

[illegible]

BELGIUM/LUXEMBOURG | SPAIN | SWEDEN | HONG KONG | SINGAPORE | SOUTH AFRICA

[illegible]

DENMARK | ITALY | SWITZERLAND | JAPAN

[illegible]

FRANCE | NETHERLANDS | AUSTRALIA

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Schillings.

CANADA

TORONTO

Prices at 2.30pm March 18

[illegible]

F—No voting rights or restricted voting rights

MONTREAL

Closing prices March 17

[illegible]

Total Sales 0,478,229 shares

Indices

NEW YORK—DOW JONES

[illegible]

STANDARD AND POORS

[illegible]

N.Y.S.E. ALL COMMON

[illegible]

RISES AND FALLS

[illegible]

NYSE-Consolidated 1500 Actives

[illegible]

TORONTO

[illegible]

* Indicates pre-close figure

	Mar. 18	Mar. 17	Mar. 14	Mar. 13	1985-86 High	1985-86 Low
AUSTRALIA						
All Ord. (1/1/80)	1124.5	1112.2	1088.5	1086.8	1120.6 (18/3/86)	115.5 (7/1/85)
Metals & Minls. (1/1/80)	550.0	(u)	525.4	522.8	505.8 (20/5)	362.5 (7/1/85)
AUSTRIA						
Credit Aktien (2/1/62)	116.17	115.13	116.55	115.02	126.82 (15/1/86)	58.21 (24/1/85)
BELGIUM						
Brussels SE (1/1/80)	3382.10	3352.27	3350.15	3346.73	3382.70 (18/3/86)	2080.7 (10/1/85)
DENMARK						
Copenhagen SE (6/1/83)	(u)	238.82	238.15	238.83	238.83 (13/3/86)	158.44 (8/1/86)
FRANCE						
CAC General (3/1/80)	325.8	316.5	322.4	315.3	325.5 (18/3/86)	180.5 (5/1/85)
Ind Tendance (31/12/85)	129.8	129.5	125.2	119.9	124.8 (18/3/86)	100.0 (31/12/85)
GERMANY						
FAZ Aktien (31/12/58)	685.18	694.21	695.67	688.43	116.78 (15/1/86)	382.89 (5/1/85)
Commerzbank (1/12/53)	2073.6	2091.5	2082.4	2088.6	2181.8 (16/1/86)	1111.8 (3/1/85)
HONG KONG						
Hang Seng Bank (31/7/64)	1561.12	1568.46	1601.83	1612.87	1826.84 (8/1/86)	1220.14 (2/1/85)
ITALY						
Banca Comm Ital. (1972)	654.53	658.01	624.96	635.88	658.01 (11/3/86)	228.56 (2/1/85)
JAPAN**						
Nikkei (16/5/49)	14639.3	14855.5	14516.77	14414.7	14664.5 (15/3/86)	11545.2 (5/1/85)
Tokyo SE New (4/1/68)	1168.40	1188.91	1166.18	1153.45	1168.91 (11/3/86)	918.95 (4/1/85)
NETHERLANDS						
ANP-CBS General (1970)	261.5	265.8	260.9	263.2	261.8 (8/1/86)	185.8 (5/1/85)
ANP-CBS Indust (1970)	245.7	249.8	249.5	251.9	256.3 (17/1/86)	147.5 (8/1/85)
NORWAY						
Oslo SE (4/1/83)	355.91	344.05	344.51	348.98	412.85 (12/11)	288.10 (2/1/85)
SINGAPORE						
Straits Times (30/12/66)	570.29	570.56	578.50	584.86	852.65 (7/3/85)	578.29 (18/3/86)
SOUTH AFRICA						
JSE Gold (28/9/78)	—	1220.7	1220.7	1216.2	1301.9 (27/1/86)	829.5 (5.8)
JSE Indust (28/9/78)	—	1161.6	1155.2	1150.9	1164.1 (25/2/86)	787.1 (7/1/85)
SPAIN						
Madrid SE (30/12/85)	168.88	150.12	154.42	150.23	154.02 (14/3/86)	100.0 (30/12/85)
SWEDEN						
Jacobson & P (31/12/56)	1956.10	1963.72	1933.55	1945.45	1960.72 (11/3/86)	1285.32 (9/7)
SWITZERLAND						
Swiss BankCpn (31/12/58)	570.6	583.0	578.2	588.8	625.6 (8/1/86)	388.7 (3/1/85)
WORLD						
M.S. Capital Intl. (1/1/70)	—	298.8	298.5	293.5	298.8 (17/3/86)	184.5 (4/1/85)

** Saturday March 15: Japan Nikkei 14,664.47. TSE 1,166.55.

Base values of all indices are 100 except JSE Gold—255.7, JSE Industrial—264.3, and Australia, All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

LONDON

Chief price changes (in pence unless otherwise indicated)

RISES

Tr 11¾% 1991	£107⅛	+⅜
Tr 12¼% 03-05	£124¼	+⅜
Allied-Lyons	312	+15
Bass	735	+35
Boots	279	+8
Burton	317	+15
Cons. G Field	483	+18
Hillsdown	248	+8
Magnet & South	162	+8
Marks & Spen	212	+14
Meyer Intnl	246	+7
NatWest	855	+39
RHM	215	+8
RTZ	682	+18
St. Ives	785	+85
Shell Tran	780	+17
Storehouse	345	+17
Tarmac	452	+20
Whitbread	282	+17
Youghal Carpets	8¼	+2¼

FALLS

Tr 2½% IL '20	£89⅝	−⅞
Abbey Life	207	−9
Access Satel	65	−15
Baird	530	−30
Davies & Met	85	−13
Equity & Law	278	−10
Exco Intl	225	−7

OVER-THE-COUNTER *Nasdaq national market, 2.30pm prices*

Continued from Page 49

[illegible]

Prices at 3pm, March 18

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
21½	10⅝	AAR s			19	575	20⅝	20¼	20½	-⅛
33½	17¼	AFG			18	281	u34⅝	33¾	34½	+1
25⅜	10¼	AGS			16	230	23½	22⅞	23½	+1¼
14⅝	9⅞	AMCA				7	13⅝	13¼	13¼	+⅛
53½	37½	AMR			8	3842	49⅝	48⅝	49¼	+⅝
25¾	18⅝	AMR pf2.18		8.6		25	25⅝	25¼	25⅜	+⅛
25¾	23¼	ANR pf 2.67		11.		2	25	25	25	-½
21½	18	ANR pf 2.12		10.		2	21¼	21¼	21¼	+½
13½	7⅝	APL			7	48	11⅝	11¼	11½	+⅜
16¾	10⅝	ARX			14	105	15½	15⅛	15⅜	+⅛
55⅝	32¾	ASA	2a	5.1		462	40	39	39	-⅝
77¾	49	AbtLab1.68		2.1	28	2009	u79⅞	77	79¼	+1¾
31⅞	18⅝	AccoWd.50		1.6	22	135	30¾	30½	30¾	+⅜
24⅝	10	AcmeC .40		3.2	10	270	12⅝	12⅜	12½	-⅛
9¾	7	AcmeE.32b		3.7	16	10	8	8¾	8¾	
19¾	16⅞	AdaEx 1.90e		10.		149	18	18⅝	18⅞	
20	14	AdmMl .40		1.8	71	12	25⅝	25½	28½	
20⅝	8¾	AdvSys1.36t		7.1	17	159	19¼	16¼	19¼	+⅜
34	22⅞	AMD				1559	31⅝	31⅛	31⅝	-¼
12⅝	6¼	Adobe n				73	9¾	6¼	6½	+⅛
18⅝	14⅝	Adob pf 1.84		11.		128	16⅜	16¼	16⅜	+⅛
16½	13¼	Adob pf 2.40		13.		18	u18⅝	18⅝	18⅝	+⅛
17¾	8⅞	Advest .12a		.7	16	256	17¼	16⅞	17	
80	38⅛	AetnLf 2.64		4.1	17	2239	64⅝	63⅞	64¼	-½
57½	52⅛	AetL pf4.97e		9.4		1072	52⅞	52⅝	52¾	
68¼	27¾	Ahmns 1.38		2.2	6	1298	62	61¼	61⅝	-⅜
2	24	AirbF 1		5.60	6	1	447	u25⅞	24½	24⅞
2⅛	⅜	AiMoen 50c				231	½	½	½	
29¼	25½	AlaP pf2.53e		9.3		400	27	26⅞	21	

Continued on Page 49

NYSE COMPOSITE PRICES

Continued from Page 48

X Y Z

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
72¼	42⅛	Xerox	3	4.3	16	5487	70	68	69⅝	+½
57⅞	48	Xerox pf5.45		8.8		28	58⅝	56⅛	58⅝	+⅜
37	28	ZaleCo 1.32		3.7	14	45	35⅝	35⅜	35⅜	−⅛
15½	3½	Zapata .03j			30	804	4¼	4	4¼	+¼
70⅝	40¼	Zayre s .48		.7	22	1468	70¼	69⅝	69⅝	+⅛
26¼	16¼	ZenithE				2531	24⅝	24⅛	24½	+¼
32½	11	ZenLbs .10i		.3	23	2010	u33⅞	32	33⅜	+1⅛
22⅜	13¾	Zero s				201	21⅞	21¼	21¾	+⅝
45⅜	28¾	Zurnin 1.32		3.1	18	105	43⅜	42⅞	43	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

AMEX COMPOSITE PRICES

Prices at 3pm, March 18

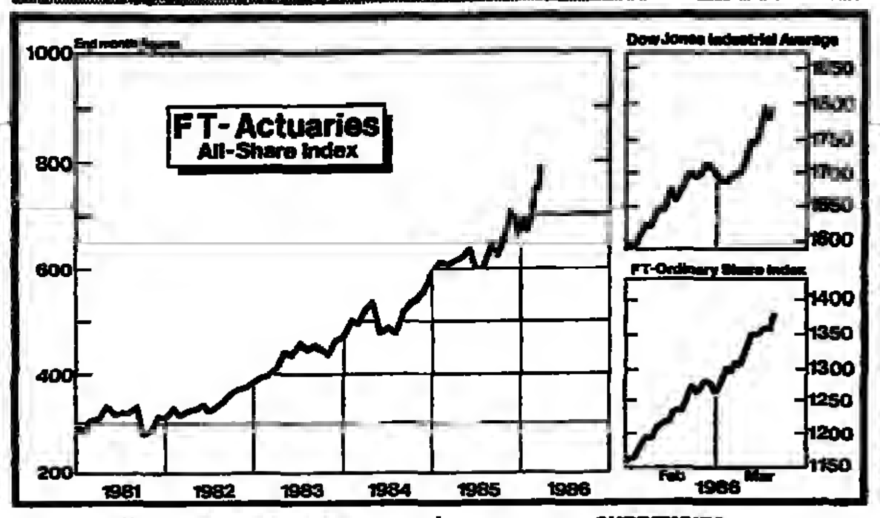
OVER-THE-COUNTER

Nasdaq national market, 2.30pm prices

Continued on Page 47

FINANCIAL TIMES
WORLD STOCK MARKETS

KEY MARKET MONITORS



STOCK MARKET INDICES

	March 18	Previous	Year ago
NEW YORK			
DJ Industrials	1,787.36*	1,776.82	1,249.67
DJ Transport	803.97*	804.10	594.77
DJ Utilities	186.29*	186.65	147.16
S&P Composite	235.55*	234.67	176.88
LONDON			
FT Ord	1,374.6	1,357.7	997.5
FT-SE 100	1,644.4	1,622.6	1,300.3
FT-A All-share	799.32	791.4	622.16
FT-A 500	881.47	871.71	679.80
FT Gold mines	317.4	316.3	507.0
FT-A Long gilt	9.57	9.59	10.77
TOKYO			
Nikkei	14,639.32	14,655.52	12,508.60
Tokyo SE	1,168.40	1,168.91	1,000.10
AUSTRALIA			
All Ord.	1,124.6	1,112.2	790.2
Metals & Mins.	550.6	522.4	471.9
AUSTRIA			
Credit Aktien	116.17	115.73	71.23
BELGIUM			
Belgian SE	3,382.70	3,352.27	2,306.78
CANADA			
Toronto			
Metals & Minls	2,337.9*	2,333.3	1,999.0
Composite	2,961.1*	2,957.0	2,577.5
Montreal			
Portfolio	1,526.83*	1,511.61	128.46
DENMARK			
SE	n/a	238.42	176.85
FRANCE			
CAC Gen	325.6	315.9	207.1
Ind. Tendance	124.8	120.5	112.4
WEST GERMANY			
FAZ-Aktien	685.16	694.21	420.22
Commerzbank	2,073.3	2,091.9	1,220.3
HONG KONG			
Hang Seng	1,561.72	1,566.45	1,310.47
ITALY			
Banca Comm.	654.53	658.01	276.1
NETHERLANDS			
ANP-CBS Gen	261.0	260.6	207.2
ANP-CBS Ind	248.7	249.3	166.2
NORWAY			
Oslo SE	353.81	344.05	316.22
SINGAPORE			
Straits Times	570.29	570.56	831.46
SOUTH AFRICA			
JSE Golds	–	1,220.7	927.4
JSE Industrials	–	1,161.6	858.2
SPAIN			
Madrid SE	148.99	150.72	111.91
SWEDEN			
J & P	1,956.10	1,960.72	1,433.47
SWITZERLAND			
Swiss Bank Ind	578.0	583.0	430.4
WORLD	Mar 17	Prev	Year ago
MS Capital Int'l	298.8	298.0	195.4

COMMODITIES

(London)	March 18	Prev
Silver (spot fixing)	392.25p	387.50p
Copper (cash)	£1,003.00	£1,001.00
Coffee (Mar)	£2,450.00	£2,427.50
Oil (spot Arabian Light)	n/a	n/a

GOLD (per ounce)

	March 18	Prev
London	$350.50	$352.75
Zürich	$351.25	$350.45
Paris (fixing)	$353.41	$349.19
Luxembourg	$351.05	$347.90
New York (April)	$350.30	$358.40

CURRENCIES

(London)	US DOLLAR March 18	Previous	STERLING March 18	Previous
$	–	–	1.4775	1.485
DM	2.249	2.2475	3.3225	3.2925
Yen	175.0	175.85	258.5	257.25
FFr	6.915	6.9075	10.2175	10.1175
SFr	1.8835	1.884	2.7825	2.76
Guilder	2.533	2.556	3.75	3.745
Lira	1,528.0	1,527.0	2,257.5	2,237.0
BFr	45.95	46.0	67.9	67.4
C$	1.3886	1.3895	2.05	2.0357

INTEREST RATES

	March 18	Prev
Euro-currencies (3-month offered rate)		
£	11⅝	11⅞
SFr	4⅛	5¹⁄₁₆
DM	4⁹⁄₁₆	4⅝
FFr	12	11⅞
FT London Interbank fixing (offered rate)		
3-month US$	7⅝	7⅝
6-month US$	7½	7⁷⁄₁₆
US Fed Funds	7⅝*	7¾
US3-month CDs	7.10*	7.10
US3-month T-bills	6.51*	6.52

US BONDS

Treasury		March 18* Price	Yield	Prev Price	Yield
8	1988	101¹⁹⁄₃₂	7.21	101¹⁹⁄₃₂	7.21
8⅞	1993	105⁹⁄₃₂	7.649	105⁹⁄₃₂	7.66
8⅞	1996	107²⁵⁄₃₂	7.739	107²⁵⁄₃₂	7.75
9¼	2016	114¹⁹⁄₃₂	7.947	114¹⁹⁄₃₂	7.97

Treasury Index

Maturity (years)	Return index	March 17 Day's change	Yield	Day's change
1–30	147.69	–0.09	7.71	+0.01
1–10	141.09	0	7.52	0
1–3	133.04	+0.04	7.30	–0.01
3–5	143.31	+0.04	7.58	0
15–30	171.30	–0.40	8.35	+0.03

Source: Merrill Lynch

Corporate	March 17* Price	Yield	Prev Price	Yield
AT & T				
10⅜ June 1990	101⅞	9.85	101⅞	9.85
3⅞ July 1990	88⅞	6.75	88⅞	6.75
8⅝ May 2000	97⅞	9.05	97⅞	9.05
Xerox				
10⅞ Mar 1993	108	8.21	108	8.21
Diamond Shamrock				
10⅞ May 1993	101.21	10.25	101.21	10.25
Federated Dept Stores				
10⅞ May 2013	108⅞	9.7	108⅞	9.7
Abbot Lab				
11.80 Feb 2013	114⅞	10.2	114⅞	10.2
Alcoa				
12⅞ Dec 2012	113⅞	10.53	113⅞	10.53

Source: Salomon Brothers

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
Mar	96–26	96–30	95–24	97–01
US Treasury Bills (IMM) $1m points of 100%				
June	93.74	93.74	93.65	93.75
Certificates of Deposit (IMM) $1m points of 100%				
June	93.06	93.06	93.01	93.04
LONDON				
Three-month Eurodollar $1m points of 100%				
June	92.72	92.75	92.68	92.79
20-year Notional Gilt £50,000 32nds of 100%				
Mar	119–30	119–29	119–01	119–07

* Latest available figures

WALL STREET

Resilience despite Opec talks

THE MEETING in Geneva of Opec ministers dominated the attention of the New York financial markets yesterday, *writes Terry Byland in New York.*

Bonds opened sharply down but halved their losses as midsession passed without a statement from Opec. The stock market proved resilient and moved upwards towards its recent peak levels.

By 3pm, the Dow Jones industrial average was up 10.54 at 1,787.36.

Rates moved up sharply at the long end of the credit market as New York waited for news from Geneva. Bond prices opened a full point lower as traders anticipated moves by the Opec nations to find a formula to prop up oil prices.

Short-term prices rose by five basis points after a report that Mr Paul Volcker, the Fed chairman, had been voted *down after initially opposing the recent* decision to cut the discount rate. Renewed rumours that he planned to resign were denied by the Federal Reserve.

The market's hopes of a further easing in Fed policies, perhaps including another discount rate cut if the economy continues to flag, were discouraged both by Mr Volcker's reported views and by the hinted split at the Fed.

The stock market stood up determinedly to these bearish factors and the initial selling was light as a premium on stock index futures brought buyers in for blue chips. Heavy trading in IBM led the market's recovery.

There was a mixed response from UK shares traded as American Depositary Receipts (ADRs) in the US to reported moves in the UK budget to change the taxation status of ADRs. Imperial Chemical's ADRs, which often represent the lion's share of total daily turnover in the British chemical group's stock, jumped $1⅛ to $60⅞.

A dip in February housing starts had little effect on Wall Street. Retail stocks edged higher as results were announced by some major names. Carter Hawley Hale eased $⅝ to $30⅞ and Allied Stores $⅞ to $74⅞, both after trading figures. K mart gave up $⅝ of its recent rise to stand at $43⅞, while J. C. Penney at $66⅞ put on $⅞.

The firmer trend in technology stocks featured IBM, up $1⅛ at $152, NCR, up $1⅛ at $42⅞, and Burroughs, up $⅞ at $68⅞.

Oils made little further response to the steadier trend of the oil futures markets. Exxon added $⅝ to $56⅞ and Chevron $⅛ to $37⅞. Atlantic Richfield shaded $⅝ lower to $52⅞. The decision to trim spending at Occidental Petroleum soothed some market fears for the oil group's dividend policy and it gained $⅝ to $25⅞. But turnover in the major oils was light, as Wall Street scanned the tapes for news from the Opec meeting.

Airline issues also brushed off the possibility of a reversal of the fall in fuel prices. Delta, up $1 at $40 led a revival among the domestic carriers. TWA, claiming near-victory in the dispute with its cabin staff, gained $⅝ to $16⅞ in brisk turnover.

The Dow average was helped by a jump of $1⅞ to $82⅞ in General Motors. The other Detroit groups also moved up as the UAW, their major employee union, suspended its drive for recognition at Honda Motor's plant in Ohio. Chrysler added $1 to $41⅞.

Chemical and pharmaceutical stocks, which are susceptible to dollar fluctuations, held steady as the US currency weakened again. A firm feature was Abbott Laboratories, up $1⅞ at $78⅞.

Tobacco stocks continued their switchback course as investors responded to the latest moves in the cancer-death lawsuits. Philip Morris at $118⅞ rebounded $1⅞, reaffirming satisfaction with a court ruling that corporate documents need not be made publicly available. But R. J. Reynolds eased $½ to $40⅞.

An accord on wages at LTV brought mixed changes in the sector. Inland edged up $⅛ to $27¾, while US Steel at $23¾ added $⅝ in heavy trading.

Poor third-quarter results from Federal Express, the leading private mail carrier, brought a drop of $4¼ to $65⅝ as Wall Street's analysts trimmed their forecasts for the full year's trading outcome.

Also badly treated was stock of Jim Walter, down $1¼ at $56¾ after an increase in quarterly profits that failed to match analysts's expectations.

In the credit sector, bond prices rallied strongly on reports of uncertain progress at the Opec meeting – and a reaffirmation from London that the UK will not cut oil output. The yield on the long bond fell below 8 per cent again – and the fall in the key bond price was *trimmed* from a *full point to only one* quarter of a point.

EUROPE

Paris shines amid oil uncertainty

OPTIMISTIC assessments of future inflation rates fuelled rises in Sweden and Belgium, leaving them at records for the second consecutive session.

Elsewhere in Europe trading – mostly determined by local interpretations on the outcome of the Opec talks – was dull. A post-election rebound made France a notable exception, however.

Prices peaked in **Brussels**, buoyed by expectations of lower interest rates and a report which predicted better industrial growth and lower inflation.

The Brussels Stock Exchange index added 30.43 to a record 3,382.70 as foreigners snapped up large orders.

Cobepa, the country's third-largest holding company, put on BFr 80 to BFr 4,510 *after* news of a *25 per cent increase* in profits for 1985. Electrical group Intercom gained BFr 50 to BFr 3,650.

The day's star performer was Belgium's biggest retail group GB-Inno-BM, which shot up BFr 690 to BFr 7,250.

Glassmaker St Roch was also a strong performer, gaining BFr 400 to BFr 4,100.

An improvement in Sweden's current account and revised inflation forecasts from two banks – which point to a 4 per cent or lower inflation rate for 1986 against about 7.4 per cent in 1985 – sent **Stockholm** to a new high.

The Veckans Affarer all-share index added 1.1 to 676.8.

Alfa-Laval rose SKr 2 to SKr 282 ahead of its 1985 results, which showed an increase in earnings, and Asea firmed SKr 5 to SKr 408.

Paris overcame its hesitant mood to close sharply higher.

Both foreign and domestic investors were attracted by shares left lower after Monday's session and confidence about the political situation returned after President François Mitterrand's announcement that he would shortly name a conservative prime minister.

Motor shares recorded the most pronounced advances. Peugeot rose FFr 75 to FFr 990 as its subsidiary, Citroën, forecast that it will return to the black in 1986. Michelin added FFr 215 to FFr 2,890.

Carrefour, the retailing group which runs a chain of hypermarkets, climbed FFr 130 to FFr 3,460 and in the food sector, BSN gained FFr 260 to FFr 3,660

Oils made slight advances. Elf Aquitaine firmed FFr 10.50 to FFr 226 and Total FFr 10 to FFr 328.

Oslo was sharply higher with dealers attributing the rally to market confidence that the Opec meeting in Geneva will produce an agreement on oil production restraint.

Norsk Hydro added DKr 8.50 to DKr 139.50, while Christiania Bank was steady at DKr 166.50 ahead of higher year-end results.

Investors in **Frankfurt** *took a less optimistic* view of the Opec outcome and were reluctant to open fresh positions.

The Commerzbank index dropped 19.1 to 2,073.3 as increased profit-taking throughout the session left prices at their lows for the day.

Computer maker Nixdorf dropped DM 16 to DM 560 as the market was stunned by the death of its 80-year-old company founder and managing board chairman Mr Heinz Nixdorf.

Commerzbank shed a hefty DM 14.50 to DM 312.50 while steels group Klöckner gave up *DM 13.50 to DM 92*

Bonds eased by around 40 basis points in quiet trading and the Bundesbank reversed its intervention tactics by buying DM 35.8m worth of paper after selling DM 139.2m on Monday.

After a mixed opening, **Amsterdam** held on to gains and ended slightly firmer ahead of today's local elections.

Royal Dutch firmed on hopes of a positive Opec outcome, gaining Fl 3.20 to Fl 184.30 and Unilever added Fl 2 to Fl 415.

Demand for the new 10-year 8½ per cent state issue, which is likely to be oversubscribed, kept bond trading quiet and prices ended unchanged.

Zurich was lower for the second session as foreigners remained on the sidelines. Banks were depressed by light profit-taking, while Jacobs Suchard registered share was steady at SFr 1,700 ahead of a one-for-five rights issue announcement.

Bonds were steady.

Profit-taking after two higher sessions left **Milan** easier although industrials, which closed before the selling wave, recorded gains. Fiat continued to climb to peaks, however, adding L210 to L10,210.

AUSTRALIA

FULL-BLOODED overseas buying pushed Sydney to another record yesterday as the All Ordinaries index rose 12.6 to 1,124.5.

Leading industrials remained in the centre of activity, with BHP closing 2 cents lower at A$6.40 after an earlier A$6.34. Bell Resources, its suitor, added 4 cents to A$5.20, while the Bell parent, Bell Group, jumped 34 cents to A$7.20.

Among other market leaders, CRA firmed 22 cents to A$6.62 on high-turnover and strong foreign buying.

CSR picked up 4 cents to A$3.32 and Amatil scored a 10-cent gain to A$7.10. Takeover target ACI retreated 6 cents to A$3.50

LONDON

DELIGHT abounded in the London equity markets after the budget proposals and leading shares aggressively extended an early advance. The FT Ordinary index finished 16.9 higher at a record 1,374.6.

Major clearing banks and brewers made exceptional progress, while some leading stores scored solid gains.

Gilt trading finished ahead of the budget but longs added ¾ while shorts secured rises of ½; index-linked issues weakened on the prospects of lower inflation.

Chief price changes, Page 47; Details; Page 46; share information service, Page 44-45.

SINGAPORE

BARGAIN-HUNTING alternated with stoploss selling in a dull Singapore that added 0.27 to the Straits Times industrial index to 570.29.

Singapore Airlines, the most active issue again with 475,000 shares traded out of a total 8m, picked up 20 cents to S$6.40. OCBC, also active, shed 25 cents to S$6.05, while Cerebos picked up 2 cents to S$2.16.

Fraser & Neave and Singapore Press both added 5 cents to S$5.65 each.

HONG KONG

LACKLUSTRE trading dominated Hong Kong again and trimmed 4.77 off the Hang Seng index to 1,561.72 despite an early rise of nearly five points.

The main source of the current weakness is the shift in investor funds overseas as other markets, particularly the leading exchanges, hit record levels.

Some bargain hunting propped up prices but by the close Hang Seng Bank was HK$1 cheaper at HK$42. Among utilities, which have showed some strength in recent weeks, Hongkong & China Gas turned 10 cents lower to HK$12

TOKYO

Volatility of yen prompts more unease

THE VOLATILITY of the yen combined with some late profit-taking to turn stocks prices lower in Tokyo yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

Investors rushed to buy public works-related stocks such as large-capital constructions, in anticipation of government measures to soften the impact of the yen's surge on the economy by boosting domestic demand. But blue-chips and many other issues eased on small-lot selling.

The Nikkei average hit a new high at one stage, but closed 18.20 down at 14,639.32. Volume swelled to 1.14bn shares from the previous day's 874m, largely because of active trading in low-priced construction shares. Declines outnumbered gainers by 547 to 336, with 103 issues unchanged.

Public works-related issues drew strength from reports that the government had started drawing up an economic package containing stepped-up public works for the first half of the fiscal year beginning in April and deregulations to speed urban redevelopment and housing construction.

Among the construction issues favoured, Ohbayashi gained Y44 to Y599, Kajima Y39 to Y699 and Taisei Y15 to Y450. Selective buying interest spread to housing and cement shares with Sekisui House rising Y65 to Y1,050 and Sumitomo Cement Y41 to Y366.

Cable and wire shares also attracted buyers as the Government is planning to lay 1,000km of underground cables in the next three years. Furukawa Electric firmed Y24 to Y395.

Electric and gas utilities that should benefit from the yen's appreciation remained favourites. Tokyo Electric Power added Y10 to Y3,600 and Tokyo Gas, the most active with 51.7m shares traded, added *Y8 to Y404. But some prof*it-taking was seen because of their record price levels.

Blue-chips fell on a broad front on prospects of lower export earnings due to the yen's persistent rise. Fanuc lost Y140 to Y6,510, Hitachi Y17 to Y728, NEC Y40 to Y1,170 and Ricoh Y27 to Y856.

The bond market weakened in a bout of profit-taking caused by prospects that Opec members will decide on oil production cutbacks at the Geneva meeting.

Fears of a rebound in oil prices reduced bond demand, which was further diminished by heavy sales by one securities house of bonds worth about Y300bn.

The yield on the bellwether 6.2 per cent government bond due in July 1995 slipped to 4.830 per cent from Monday's 4.840 per cent at the close, but later climbed to 4.890 per cent on the over-the-counter market. Yields on some issues with similar maturities jumped on profit-taking.

SOUTH AFRICA

A WARM response was given in Johannesburg to Monday's budget and most sectors showed gains.

The firmer bullion price also aided sentiment and Buffels added R1.50 to R78 while Driefontein gained R1.25 to R54.50.

In mining financials, Anglo American Corp rose 85 cents to R43.85. De Beers picked up 70 cents to R21.10 and Impala, among platinum stocks, was 65 cents stronger at R28.50.

CANADA

AN ADVANCE among oil and gold stocks firmed Toronto slightly in a modest recovery from the falls encountered on Monday.

Dome Petroleum was actively traded 9 cents higher to C$2.05. Canadian Pacific was unchanged at C$18⅞. Trilon Class A lost C$¼ to C$30¼ and Imperial Oil Class A added C$½ to C$46¾.

Montreal managed a small across-the-board gain.